DRAFT BUDGET RELATED POLICIES

Annexure E

NEWCASTLE MUNICIPALITY

SHORT TERM INSURANCE POLICY

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1. Preamble

1.1 It is required of the accounting officer, to take all reasonable steps to ensure that the Council has and implemented policies for effective financial and risk management. The safeguarding of assets and the protection of Council against liabilities, is very important which forms part of a proper assets management system as prescribed by Section 63 and needs annual revision in terms of Section 24(2)(c)(v) of the Municipal Finance Management Act 56 of 2003. This requirement is also embedded in the Asset Management Policy and the Loss Policy of the municipality.

1.2. Insurance brokers active in the municipal environment over years prepared a standard for local authority insurance that takes all circumstances related to a municipal environment into account. There are however aspects in addition to this standard that the Council can decide on policy in order to reduce premium without an increase in risk or where the Council is prepared to accept risk due to a very slim probability of the risk event occurring.

2. **Property to be insured**

The following is recommended as a policy on short term insurance of risk and liabilities:

2.1 **Asset schedules**

Upon the appointment of the new Insurance Broker, the Strategic Executive Director and submit the asset register of assets necessary to be covered in terms of this this policy, where after such assets shall be categorised in terms of insurance schedules in consultation with the insurance broker.

Subsequent to the appointment of the insurance broker, each head of a department shall immediately on acquisition, submit all assets to be insured to the Strategic Executive Director: Budget and Treasury Office which will need cover shall in accordance to this policy.

The Strategic Executive Director shall ensure that the asset register is regularly updated in order to avoid omissions of assets being covered for any risk of loss of damage, where after all new assets shall be submitted to the Council's insurance broker for insurance purposes.

Such assets shall accordingly be included in the insurance portfolio through updating of the insurance schedules representing the covers and in category of asset covered in the insurance portfolio.

2.2 **Property excluded from external insurance**

All property owned by or leased to the Council, property held by the Council in trust and/or commission and/or custody and/or under Council's control and/or for which the Council is responsible must be insured ***except for the following which are specifically excluded***:

- property more specifically insured by any other firm arrangement.
- dam walls, dam contents, canals, reservoirs and reservoir contents.
- pavilions, sport stadiums, spectator stands, outdoor sports playing or recreational surfaces, athletic tracks.
- loose assets falling within the excess payment of the applicable insurance policy.
- explosives and ammunition.
- bullion.
- precious stones.
- jewellery other than the Mayor's regalia.
- trophies and indexed museum items.
- electrical and communication transmission and distribution lines including cabling and their support structures, other than on or within 150 meters of any insured premises.
- water piping as well as stormwater piping including their supporting structures, other than on or within 150 meters of insured property.
- sewerage piping including their supporting structures other than on or within 150 meters of insured property.
- driveways, pavements, outdoor parking surfaces
- roads, road and railway bridges, road and rail tunnels, manhole covers
- aircraft runways and aprons
- land, topsoil, backfill, drainage or culverts
- accounts receivable
- saving certificates and the like
- property in possession of customers (library books, etc.).
- trees, shrubs and plants
- monuments and statues
- growing timber, growing crops and livestock.

2.3 **Contingencies and risks specifically excluded**

- any event of risk where the Council is specifically indemnified.
- contingencies arising from landslides and earthquakes.
- removal of rubble or professional fees resulting from any damaged property or structures except for the Newcastle Civic Centre.
- workmen's compensation for personnel covered under the Workmen's Compensation Act.
- first 24-hours' work on the recovery of lost electronic data information.

2.4 **Damage and risks to be specifically included to the short term insurance portfolio**

- houses under rental and selling schemes administrated by the Council.
- all property as contained in the assets schedules.
- contractors all risk for high-risk construction as identified by the relevant Head of departments from time to time.
- full theft cover at all insured property.
- all money on the premises or in transit to a maximum at any stage at any premises in cash and in cheques.
- fidelity insurance based on all positions higher than Task Grade 12 and including, excluding councillors.
- comprehensive motor own damage and third party liability on a motor fleet basis including specifically mentioned high valued vehicles.
- full comprehensive coverage for all emergency vehicles.
- goods in transit up to R200 000 per single load.
- group personal accident insurance on 24-hour basis for all councillors to a maximum of R500 000 per incident.
- stated benefits (workmen's' compensation) insurance on 24-hour basis for the Councillors in terms of Upper Limits Notice as issued from time to time.
- electronic equipment on the mainframe computer, document imaging system and networks.
- incidental damages including consequential damages at high risk electrical and mechanical plants as identified by the Strategic Executive Director: Electrical Services.
- aerodrome owners liability insurance.
- public liability for bodily injury or damage to an amount of R2-million per event and a total annual coverage of R100-million.
- maximum employers liability of R10-million.

3. Consideration of higher excess payments

The possibility of paying higher first amounts with claims which might result in lower premiums must constantly be considered by the Strategic Executive Director: Budget and Treasury Office taking into account the best benefit for Council at all times.

4. Contribution to insurance reserve

4.1 The short term insurance portfolio must be administrated on an internal insurance fund principle as contemplated in the Financial Code of Practice.

4.2 Excess payments on claims are allocated to the Budget and Treasury Office department vote under general expenditure.

4.4 All uninsured assets are replaced from the Self-insurance reserve funds.

5. **Reporting risk, claims and damage**

It shall be the duty of a head of a department to notify the Strategic Executive Director: Budget and Treasury Office without delay of any new insurable risk or of any alteration in an existing insurable risk which has arisen in connection with his or her department.

On the occurrence of any event giving rise or likely to give rise to a claim by or against the Council or against its insurers, the head of the department concerned shall notify the Strategic Executive Director: Budget and Treasury Office of that event which shall immediately notify the Council's insurer thereof.

The Strategic Executive Director: Budget and Treasury Office shall keep a register in which particulars of all insurance policies held by the Council shall be entered and he shall be responsible for the payment of all premiums and shall ensure that claims that arise under such policies are instituted.

6. Claims preparation costs

The Strategic Executive Director: Budget and Treasury Office shall with annual renewal of insurance or otherwise as regular as required negotiate for the inclusion of exceptional claims preparation costs to be included to the related insurance portfolio.

7. **Disputes and arbitration**

The Strategic Executive Director: Budget and Treasury Office shall with the annual renewal of insurance arrange with the insurerance brokers that any disputes as to the amount of liability of the insurers under any of the insurance policies be determined by arbitration in accordance with the laws of the Republic of South Africa.

8. **Appointment of insurance brokers**

The Council shall call for tenders for the appointment of insurance brokers at least once every three (3) years, unless circumstances require deviation herefrom. Insurance brokers will be appointed according to their ability to administrate the Council's short term insurance portfolio, the professional people in their employment and their record of sound brokerage service in the municipal environment.

The insurance brokers shall specifically indemnify the Council of increased risk because of the incorrect of unprofessional handling of the placement of insurance or the handling of a specific insurance claim. The insurance broker shall revise the Council's insurance policy annually in collaboration with the Strategic Executive Director: Budget and Treasury Office.

9. Implementation of this Policy

The Accounting Officer shall be responsible for the implementation and administration of this policy through the delegation of Strategic Executive Director: Budget and Treasury Office.

The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

This policy must be read in conjunction with the municipality's Asset Management and the Loss Control policies.

NEWCASTLE MUNICIPALITY

FUNDING & RESERVES POLICY

Draft

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DRAFT

1. PREAMBLE

The funding and reserves policy is aimed at ensuring that the municipality has sufficient and cost-effective funding in order to achieve its objectives through the implementation of its operating and capital budgets.

This policy aims to set guidelines towards ensuring financial viability over both the short- and long-term which includes reserves requirements.

2. POLICY OBJECTIVES

2.1 The objectives of the policy are to:

2.1.1 Ensure that the Medium Term Expenditure Framework (annual budget) of the municipality is appropriately funded.

2.1.2 Ensure that cash resources and reserves are maintained at the required levels to avoid future year unfunded liabilities.

2.1.3 To achieve financial sustainability with acceptable levels of service delivery to the community.

3. SCOPE OF THE POLICY

This policy shall apply to the Council, Executive Committee, Finance Portfolio Committee, Budget Steering Committee, Accounting Officer, Strategic Executive Directors and all staff of the municipal council. It is, however, specifically applicable to the council and all officials who have a formal, administrative duty to prepare, manage and control the municipal's budget and expenditure.

4. APPLICABLE LEGISLATIVE

4.1 The legislative framework governing borrowings are:

4.1.1 Local Government Municipal Finance Management Act, Act 56 of 2003; and

4.1.2 Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

5. FUNDING OF ANNUAL BUDGET

5.1 An annual budget may only be funded from:

(a) cash backed accumulated funds from previous years surpluses and reserves not committed for any other purpose;

(b) borrowed funds but only for capital expenditure; and/or

(c) Grant funding.

5.2 Realistic anticipated revenue projections must take into account:

(a) projected revenue for the current year based on collection levels to date.

(b) actual revenue collected in previous financial years.

5.3 Capital expenditure may only be incurred on a capital project only if:

(a) the funding for the project has been appropriated in the capital budget.

(b) the total cost for the project has been approved by Council.

(c) the future budgetary implications and projected cost covering all financial year until the project is operational has been considered.

(d) the implications of the capital budget on municipal tax and tariff increases.

(e) the sources of funding are available and have not been committed for other purposes.

6. CASH MANAGEMENT

6.1 The availability of cash is one of the most important requirements for working capital management and must be closely monitored to ensure a minimum days cash on hand of forty five (45) days for its daily operations.

6.2 Changes in the municipal environment that may have an impact on the municipal cash flow position include:

(a) changes in revenue levels as a result of consumption patterns (water restrictions, load shedding etc.);

(b) reduced growth as a result of economic conditions;

(c) increase in non-payment rate as a result of economic conditions;

(d) implementation of electricity industry pricing policy (inclining block tariffs).

(e) increased debt levels.

6.3 Surplus cash not immediately required for operational purposes is invested in terms of the municipality's investment policy to maximize the return on investment.

7. DEBT MANAGEMENT

7.1 Debt is managed in terms of the municipal credit control and debt collection policy and the writing off of bad debts and impairments of debtors policy.

7.2 The provision for revenue that will not be collected are budgeted as an expense and is based on the projected annual non-payment rate for each service.

8. OPERATING BUDGET

8.1 The operating budget provides funding to departments for their medium term expenditure as planned. The municipality categorises services rendered to the community according to its revenue generating capabilities.

(a) trading services – services that generate surpluses that can be used for cross subsidization to fund other services.

(b) economic services – services that break even with no surpluses.

(c) rates and general services – services that are funded by rates, surpluses generated by trading services, and/or other revenues generated such as fines, interest received, grants and subsidies etc.

8.2 The operating budget is funded from the following main sources of revenue:

(a) property rates.

(b) surpluses generated from service charges.

(c) government grants and subsidies.

(d) other revenue, fines, interest received etc.

(e) cash backed accumulated surpluses from previous years not committed for any other purposes.

8.3 The following guiding principles apply when compiling the operating budget:

(a) the annual budget must be balanced.

(b) growth parameters must be realistic taking into account the current economic conditions.

(c) tariff adjustments must be realistic, taking into consideration the general inflation, affordability, bulk increases and the demand according to the approved Integrated Development Plan (IDP).

(d) Revenue from government grants and subsidies must be in line with allocations gazette in the Division of Revenue Act and provincial gazettes.

(e) Revenue from public contributions, donations or any other grants may only be included in the budget if there are acceptable documentation that guarantees the funds such as:

(i) signed service level agreement;

(ii) contract or written confirmation; or

(iii) any other legally binding document.

(f) Property rates are levied according to the Municipal Property Rates Act, and property rates policy based on land and improvement values. The budget is compiled using the latest approved valuation and supplementary roll, consistent with current and past trends. Property rates tariffs and rebates are determined annually as part of the tariff setting process.

(g) Property rates rebates, exemptions and reductions are budgeted either as revenue foregone or a grant as per directive in MFMA Budget Circular 51 depending on the conditions thereof.

(h) Projected revenue from service charges must be realistic based on current and past trends with expected growth considering the current economic conditions. The following factors must be considered for each service:

(i) Metered services comprise of electricity and water:

- the consumption trends for the previous financial years;
- envisaged water restrictions or load shedding when applicable; and
- actual revenue collected in previous financial years.

(ii) Refuse removal services:

- the actual number of erven receiving the service per category; and
- actual revenue collected in previous financial years.

(iii) Sewerage services:

- the actual number of erven receiving the service and the consumption trends per category; and
- actual revenue collected in previous financial years.

(i) Rebates, exemptions or reductions for service charges are budgeted either as revenue foregone or as a grant as per directive in MFMA Budget Circular 51 depending on the conditions thereof.

(j) Other projected income is charged in terms of the approved sundry tariffs and fines considering the past trends and expected growth for each category.

(k) Provision for revenue that will not be collected is made against the expenditure item bad debt and based on actual collection levels for the previous financial year and the projected annual non-payment rate.

(l) Interest received from actual long-term and or short-term investments are based on the amount reasonably expected to be earned on cash amounts available during the year according to the expected interest rate trends. Transfers from the accumulated surplus to fund operating expenditure will only be allowed for specific once-off projects and with no recurring operating expenditure resulting thereof.

(m) Transfers from the accumulated surplus to offset the increased depreciation charges as a result of the implementation of GRAP 17 will be phased out over a number of years.

(n) A detailed salary budget is compiled on an annual basis. All funded positions are budgeted for in total and new and/or funded vacant positions are budgeted for six (6) months only of the total package considering the recruitment process. As a guiding principle the salary budget should not constitute more than 35% of annual operating expenditure.

(o) Depreciation charges are fully budgeted for according to the asset register and to limit the impact of the implementation of GRAP 17 a transfer from the accumulated surplus is made. However the annual cash flow requirement for the repayment of borrowings must fully be taken into consideration with the setting of tariffs.

(p) To ensure the health of municipal assets, sufficient provision must be made for the maintenance of existing and infrastructure assets based on affordable levels, resulting that maintenance budgets are normally lower than the recommended levels. Therefore the mere reduction of maintenance budgets to balance annual budgets must carefully be considered. As a guiding principle repair and maintenance should constitute between 5 and 8% of total operating expenditure and should annually be increased incrementally until the required targets are achieved.

(q) Individual expenditure line items are to be revised each year when compiling the budget to ensure proper control over expenditure. Increases for these line

items must be linked to the average inflation rate and macro-economic indicators unless a signed agreement or contract stipulates otherwise.

9. CAPITAL BUDGET

9.1 The capital budget provides funding for the municipality's capital programme based on the needs and objectives as identified by the community through the Integrated Development Plan and provides for the eradication of infrastructural backlogs, renewal and upgrading of existing infrastructure, new developments and enlargement of bulk infrastructure.

9.2 Provisions on the capital budget will be limited to availability of sources of funding and affordability. The main sources of funding for capital expenditure are:

(a) accumulated cash backed internal reserves;
(b) borrowings;
(c) government grants and subsidies; and
(d) public donations and contributions,

9.3 The following guiding principles applies when considering sources of funding for the capital budget:

(a) Government grants and subsidies:
  (i) only gazette allocations or transfers as reflected in the Division of Revenue act or allocations as per provincial gazettes may be used to fund projects;
  (ii) the conditions of the specific grant must be taken into consideration when allocated to a specific project; and
  (iii) government grants and subsidies allocated to specific capital projects are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

(b) In the case of public contributions, donations and/or other grants, such capital projects may only be included in the annual budget if the funding is guaranteed by means of:
  (i) signed service level agreement;
  (ii) contract or written confirmation; and/or
  (iii) any other legally binding document.

(c) Public donations, contributions and other grants are provided for on the relevant department's operating budget to the extent the conditions will be met during the financial year.

(d) The borrowing requirements as contained in the borrowing policy are used as a basis to determine the affordability of external loans over the Medium Term Income and Expenditure Framework. The ratios to be considered to take up additional borrowings:

(i) long-term credit rating of BBB;

(ii) interest cost to total expenditure to not exceed 8%;

(iii) long-term debt to revenue (excluding grants) not to exceed 50%;

(iv) payment rate of above 95%;

(v) percentages of capital charges to operating expenditure less than 18%.

(e) Allocations to capital projects from cash backed internal reserves will be based on the available funding for each ring-fenced reserve according to the conditions of each reserve as follows:

(i) infrastructure projects to service new developments and the revenue is received through the sale of erven must be allocated to the capital reserve for services ;

(ii) capital projects of a smaller nature such as office equipment, furniture, plant and equipment etc. must be allocated to the capital reserve from revenue which is funding from the revenue budget for that specific year. A general principle is that these types of capital expenditure should not exceed more than 1% of total operating expenditure;

(iii) capital projects to replace and/or upgrade existing assets will be allocated to the capital replacement reserve;

(iv) capital projects to upgrade bulk services will be allocated to the capital bulk contributions reserve for each service.

9.4 All capital projects have an effect on future operating budget therefore the following cost factors should be considered before approval:

(a) additional personnel cost to staff new facilities once operational;

(b) additional contracted services, that is, security, cleaning etc.

(c) additional general expenditure, that is, services cost, stationery, telephones, material etc.

(d) additional other capital requirements to the operate facility, that is, vehicles, plant and equipment, furniture and office equipment etc.

(e) additional costs to maintain the assets;

(f) additional interest and redemption in the case of borrowings;

(g) additional depreciation charges;

(h) additional revenue generation. The impact of expenditure items must be offset by additional revenue generated to determine the real impact on tariffs.

10. RESERVES

10.1 All reserves are "*ring fenced*" as internal reserves within the accumulated surplus, except for provisions as allowed by the General Recognized Accounting Practices (GRAP).

10.2 The following ring fenced reserves exist:

(a) Housing development reserves

The reserve is used to fund housing expenses for housing units that previously belonged to the Department of Human Settlements. All rentals are deposited to this fund and only utilised on authorisation by the department. This reserve must be fully cash backed and be not utilised for any other purpose that authorised by the Department of Human Settlements.

(b) Self-insurance reserve

Self-insurance reserve exists to selected risks including fire, storm, workmen compensation, public liability and motor vehicles. The service is re-insured externally to cover major losses and excess amounts as approved by the municipal Insurer. The reserve must be cash backed to ensure availability of cash in the event of minor losses or excess amounts subsequent to claims approved by the municipal Insurer.

(c) Capital replacement reserve

Funding for capital budgets of future financial years are generated through a combination of methods. Once a municipality has reached its maximum gearing ability no further borrowings can be taken up. This necessitates that the municipality also invests in a capital replacement reserve, however, it must be cash backed.

This reserve once fully established will enable the municipality to provide internal funding for its capital replacement and renewal programme.

In the past, the cash generated from depreciation was used for the redemption payments on borrowings only. The increased asset value as a result of GRAP 17 has resulted that the depreciation charges increased drastically which was not supported by cash.

To limit the tariff increases a non-cash contribution was made from the depreciation reserve to offset the depreciation charge. Depreciation is a method to generate future cash. Therefore it is anticipated to annually incrementally decrease the offset depreciation charge from the depreciation reserve with 2% until the depreciation is fully funded from cash through tariff setting.

Other contributions to the capital replacement reserve through the operating budget are:

(i) interest received on investments;

(ii) surface rentals from mines as identified from time to time; and

This reserve must be cash backed to ensure the availability of cash to fund the municipal capital programme.

(d) Bulk capital contribution reserves

This reserve is to supplement capital expenditure for the necessary expansions and upgrading of bulk infrastructure due to new developments. Revenue generated through bulk services contributions are allocated to this reserve for each applicable service. This reserve must also be cash backed.

11. PROVISIONS

A provision is recognised when the municipality has a present obligation as a result of a past event and it is probable, more likely than not, that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Provisions are revised annually and those estimates to be settled within the next twelve (12) prior to the finalisation of annual financial statements. Only current portion of provision at each balance sheet date should be cash backed as follows:

(a) Leave provision

Liabilities for annual leave are recognised as they accrue to employees. An annual provision is made from the operating budget to the leave provision. Due to the fact that not all leave balances are redeemed for cash, only 30% of the leave provision is cash backed.

(b) Long services awards

Municipal employees are awarded leave days according to years in service at year end. Due to the fact that not all long service leave balances are redeemed for cash, only 40% of the long service leave provision is cash backed.

(c) Post employment medical care benefits

The municipality provides post retirement medical care benefits by subsidizing the medical aid contributions to retired employees and their legitimate spouses. The entitlement to post retirement medical benefits is based on employees remaining in service up to retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over a period of employment. This provision must be cash backed to ensure the availability of cash for the payment of medical aid payments.

(d) Landfill rehabilitation provision

The landfill site rehabilitation provision is created for the current operational site at the future estimated time of closure. The value of the provision is based on the expected future cost to rehabilitate the landfill site. This provision will be treated as non-current liability in the municipal financial statements and will not be fully cash backed as the new landfill site will occur at a future date.

12. OTHER ITEMS TO BE CASH BACKED

(a) Donations, public contributions, unspent grant funding

Revenue received from conditional grants, donations and funding is recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Unspent amounts in relation to donations, public contributions and unspent grant funding are therefore retained in cash and are not available to fund any other items on the operating or capital budget other than that for which it was intended for.

(b) Consumer deposits

Consumer deposits are partial security for a future payment of an account. Deposits are considered a liability as the deposit is utilised on the account once the service is terminated. Therefore the funds are owed to consumers and can therefore not be utilised to fund the operating or capital budget. Consumer deposits should be retained in cash. Due to the fact that it is not likely to redeem all of the consumer deposits at once, only 30% are cash backed.

13. IMPLEMENTATION AND REVIEW OF THIS POLICY

13.1 The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office once approved by Council.

13.2 In terms of section 17(1) (e) of the Municipal Finance Management Act, 2003 this policy shall be reviewed on annual basis to ensure that it complies with changes in applicable legislation, regulations and any other directive issued by National Treasury.and tabled to Council for approval as part of the budget process.

13.3 This policy must be read in-conjunction with the Budget and Borrowing Policies; Local Government Municipal Finance Management Act, Act 56 of 2003; and Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

NEWCASTLE MUNICIPALITY

CASH MANAGEMENT & INVESTMENT POLICY

DRAFT

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1. DEFINITIONS

In this Policy, unless the context indicates otherwise, a word or expression, to which a meaning has been assigned in the Municipal Finance Management Act (MFMA) No. 56 of 2003, has the same meaning.

Accounting Officer refers to the Municipal Manager of Newcastle Municipality

Auditor-General means the person appointed as Auditor-General in terms of section 193 of the Constitution, and includes a person as acting as Auditor-General, designated by the Auditor-General to exercise a power or perform a duty of the Auditor-General.

Chief Financial Officer or his delegate means an officer of the Municipality, designated by the Municipal Manager to be administratively in charge of the financial affairs of the Municipality;

Creditor in relation to a municipality, means a person to whom money is owing by the municipality.

Debt means a monetary liability or obligation created by a financing agreement, bond or overdraft, or by the issuance of municipal debt instruments; or a contingent liability such as that created by guaranteeing a monetary liability.

Debt Agreement includes any loan agreement under which a municipality undertakes to repay a long-term debt over a period of time.

Financial year means a year ending on 30 June.

Investee means an institution with which an investment is placed or its agent.

Investment in relation to funds of a municipality, means
- the placing on deposit of funds of a municipality with a financial institution,
- the acquisition of assets with funds of a municipality not immediately required, with the primary aim of preserving those funds.

Lender in relation to a municipality, means a person who provides debt finance to a municipality.

Long-term debt means debt repayable over a period exceeding one year.

Long-term investments means any cash or liquid securities owned by the Municipality which have a maturity date, and/or callable date reasonably expected to be exercised, that is greater than one year.

Month means one of the 12 months of a calendar year.

Council means the Municipal Council of Newcastle Municipality.

Municipal entity has the meaning assigned to it in section 1 of the Municipal Systems Act.

Municipality means Newcastle Municipality.

Municipal Systems Act means the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000)

Primary bank account means the main bank account referred to in section 8(1) of the MFMA.

Provincial treasury means KwaZulu-Natal Provincial Treasury (KZNPT)

Short-term debt means debt repayable over a period not exceeding one year.

Short-term investments Any cash or liquid securities owned by the municipality which is having a maturity date, and/or callable date reasonably expected to be exercised, that is equal to or less than one year.

2. INTRODUCTION

2.1. This Policy is aimed at gaining the optimal return on investments, without incurring undue risks, during those periods when cash revenues are not needed for capital or operational purposes. The effectiveness of this Policy is dependent on the accuracy of the Municipality's cash management programme, which must identify the amounts surplus to the Municipality's needs, as well as the time when and period for which such revenues are surplus.

2.2 Managing the cash resources of the Municipality is a key requirement to ensure the liquidity of the Municipality in order to meet its financial obligations. In order to achieve this objective the Newcastle Municipality has to adopt and review this Policy as and when required.

3. STATUTORY FRAMEWORK

Section 13 (2) of the Local Government: Municipal Finance Management Act 2003 (Act No 56 of 2003) requires that the Municipality must establish an appropriate and effective cash management and investment policy in accordance with a framework that may be prescribed by the Minister of Finance.

4. SCOPE OF POLICY

This Policy applies to all cash investments made by Newcastle Municipality, and the Municipality shall at all times manage its cash management and investments in compliance with this Policy and must not be inconsistent with the Municipal Finance Management Act and the Municipal Investment Regulations.

5. THE PURPOSE AND OBJECTIVES OF THE POLICY

The purpose of this Policy is to ensure that investment of surplus funds forms part of the financial system of the Municipality and to ensure that prudent investment procedures are consistently applied in order:

i) To manage cash flows in an efficient and prudent manner

ii) To maintain a level of liquidity sufficient to meet both planned and unforeseen cash requirements

iii) To invest only in approved financial institutes

iv) To minimize the risk of investments

v) To maximize returns on investments without incurring undue risks

vi) To ensure all relevant information is disclosed to Council

vii) To ensure that all investment decisions are made by the appropriate delegated authority

viii) To prohibit investment of funds for speculative purposes

ix) To ensure transparency and compliance in all investment processes

6. RESPONSIBILITIES OF THE ACCOUNTING OFFICER

6.1 According to the Municipal Finance Management Act 2004, chapter 8, paragraph 60 and 61, the Accounting Officer of a municipality is the Accounting Officer of the Municipality for the purposes of this Act, and, as Accounting Officer, must –

(a) Exercise the functions and powers assigned to an Accounting Officer in terms of this Act; (b) Provide guidance and advice on compliance with this Act to –
(i) The political structures, political office-bearers and officials of the Municipality; and
(ii) Any municipal entity under the sole or shared control of the Municipality.

6.2 The Accounting Officer of a municipality must in terms of Municipal Finance Management Act:

(a) Exercise utmost care to ensure reasonable protection of the assets and records of the entity;

(b) Act with fidelity, honesty, integrity and in the best interest of the entity in managing the financial affairs of the entity;

(c) disclose to the entity's parent municipality and the entity's board of directors, all material facts, including those reasonably discoverable, which in any way may influence the decisions or actions of the parent municipality or the board of directors; and

(d) Seek, within the sphere of influence of that Accounting Officer, to prevent any prejudice to the financial interests of the parent municipality or the municipal entity.

6.3 The Accounting Officer may not –

(a) Act in a way that is inconsistent with the responsibilities assigned to Accounting Officers of municipal entities in terms of this Act; or

(b) Use the position or privileges of, or confidential information obtained as Accounting Officer, for personal gain or to improperly benefit another person.

6.4 The Accounting Officer is therefore accountable for all transactions entered into by his designates. One of the main functions of Accounting Officer is that of adequate and effective cash management.

6.5 The Chief Financial Officer is responsible for establishing systems, procedures, processes and training and awareness programmes to ensure efficient and effective banking and cash management.

6.6 Sound cash management includes the following:

a) Collecting revenue when it is due and banking it promptly;

b) Making payments, including transfers to other levels of government and non-government entities, no earlier than necessary, with due regard for efficient, effective and economical programme delivery and the government's normal terms for account payments;

c) Avoiding pre-payments for goods or services (i.e. payments in advance of the receipt of goods or services), unless required by the contractual arrangements with the supplier;

d) Accepting discounts to effect early payment only when the payment has been included in the monthly cash flow estimates provided to the relevant treasury;

e) Pursuing debtors with appropriate sensitivity and rigor to ensure that amounts receivable by the Municipality are collected and banked promptly;

f) Accurately forecasting the institution's cash flow requirements;

g) Timing the inflow and outflow of cash;

h) Recognizing the time value of money, i.e. economically, efficiently, and effectively managing cash; and

i) Taking any other action that avoids locking up money unnecessarily and inefficiently, such as managing inventories to the minimum level necessary for efficient and effective programme delivery, and selling surplus or obsolete assets in terms of the Asset Management Policy.

6.7 The overall responsibility of investments lies on the Accounting Officer. However the day to day handling of investments is the responsibility of the Chief Financial Officer or his designate.

6.8 In the instance that the investment amount requires that the Chief Financial Officer submit recommendations to the Accounting Officer for decision on the best investment to be made, quotations are required from the various financial institutions. In the case of telephonic quotations, the following information is required:

a) The name of the person who gave the quotation;

b) The relevant terms and rates; and

c) Other facts such as if interest is payable on a monthly basis or on maturation date

d) The Council needs to pass a resolution in respect of the limits for the investment of its funds.

6.9 In the instance where the investment will be processed via electronic funds transfer system, the banking details of the successful institution that exist of the municipal supplier database should be utilised. Where such details are not available, the successful institutional shall be required to complete and submit supplier database information in terms of the municipality's supply chain management policy.

6.10 In the instance that the Chief Financial Officer authorizes the investment, two authorized signatories must authorize and affect the electronic funds transfer in respect of the investment amount.

6.11 Where payments to financial institutions in respect of investments are to be effected by cheques, the following procedures apply:

a) The Accountant must complete a cheque requisition form and submit it to the Chief Financial Officer together with the supporting quotations;

b) The Chief Financial Officer must either authorize the requisition or submit it to the Accounting Officer, pending on the value of the investment;

c) When the Accounting Officer or the Chief Financial Officer has authorized the requisition, the Chief Financial Officer or two authorized signatories are required to sign the cheque and submit it to the financial institution.

7. CASH MANAGEMENT PROCEDURES

7.1 Bank Arrangements

7.1.1 The Accounting Officer is responsible for the management of the bank accounts. All withdrawals from the primary or other municipal banks account must be authorised by the Accounting Officer.

7.1.2 Written and signed delegations clearly indicating power and/or duties delegated should be in place. This is in terms of section 79 of the MFMA.

7.1.3 The Accounting Officer is responsible for opening the primary bank account with authorized banking institutions.

7.1.4 The Chief Financial Officer must prepare the bank reconciliation within 7 days after the end of each month, investigate any irregularities and report them to the accounting officer. The bank statements are analyzed on a daily basis. The monthly bank reconciliation prepared must reflect agreeing balances between the balances as per bank statement to that arrived at by the Municipality in its cash book.

7.2 Revenue Collection

7.2.1 The Accounting Officer or delegated official must ensure that all revenue is properly accounted for.

7.2.2 The collection and control of arrear revenue and accounts must be managed in accordance with policies issued and implemented in terms of section 64(2) of the MFMA and section 95 of the Municipal Systems Act.

7.2.3 Adequate provision must be made for writing off irrecoverable revenue in terms of the Credit Control & Debt Collection Policy.

7.3 Debtor Collections

7.3.1 All monies due to the Municipality must be collected by the due dates and banked daily.

7.3.2 All monies collected must be deposited daily or on the next working day into the primary bank account of the Municipality.

7.3.3 A numbered official receipt reflecting the name of the Municipality must be issued for the receiving of all monies.

7.3.4 The debt collection process must be reviewed regularly to determine the efficiency and effectiveness thereof.

7.3.5 Any debt older than the period determined by the credit control policy must be handed over to the applicable section for recovery.

7.4 Payment to Creditors

7.4.1 All payments should be settled on or before the due date, that is, within 30 days of the receipt of the invoice, unless otherwise agreed to between the supplier and the municipality.

7.4.2 However, the Municipality will strive to settle the amounts payable to suppliers within the settlement period as advised on the invoice to take advantage of any settlement discounts.

7.4.3 Due regard must be taken of terms of credit offered.

7.4.4 All payments by Municipality, where possible, should be effected electronically.

7.4.5 Payments may not be split to circumvent the tender regulation and any such non-compliance constitutes financial misconduct.

7.5 Receipt of Money

7.5.1 All payments received over the counter by the Municipal cashier must be acknowledged by the issuing of a numbered official receipt.

7.5.2 An endorsed cancelled receipt must be attached to the day end cash reconciliation form.

7.5.3 A cancelled receipt must be retained for audit purposes.

7.5.4 Any money, including cheques and postal orders received via mail must be recorded in a designated register that must reflect all necessary details to enable later use and identification of such receipts.

7.5.5 The register, including all payments received, must be submitted to the cashier for receipting.

7.5.6 All receipts will be recorded in the designated register, and any documents relative to the payments will be filed for audit purposes.

7.5.6 All deposits must be promptly identified and receipted into the correct revenue source or debtor account to avoid identified deposits.

7.6 Management of Cash Flow

7.6.1 The Chief Financial Officer must prepare an annual estimate of the cash flow per calendar month, this is in terms of section 71 of the MFMA.

7.6.2 The Chief Financial Officer must, every month, update estimated cash flow with the actual cash flow.

7.6.3 Comments and explanations must be provided for any significant cash flow deviations.

7.6.4 The Accounting Officer must by no later than 10 working days after the end of each month submit to the Mayor of the Municipality / Executive Committee (EXCO) and the KZNPT a statement in the prescribed format in terms of section 71 of the MFMA.

7.6.5 The analysis of the cash flow will include:

(i) When surplus revenue should be invested;

(ii) When investments should be liquidated; and

(iii) When long and short-term debt should be incurred.

8. INVESTMENT ETHICS

8.1 The Chief Financial Officer or delegated official, shall be responsible for investing the surplus revenues of the Municipality, and shall manage such investments in compliance with this Policy and any other policy directives formulated by Council and any regulations promulgated.

8.2 In making such investments the Chief Financial Officer, shall at all times have only the best interests on the Municipality and shall not accede to any influence or interference from other Council officials, Councilors, investment agents or institutions or any other outside parties.

8.3 Neither the Chief Financial Officer or any other Municipal Official, Executive Member or Councilor, may accept any undue gift or benefit, from any investment agent or institution or any party with which the Municipality has made or may potentially make an investment.

8.4 Prudence

Investment shall be made with care, skill, prudence and diligence. The approach must be that which a prudent person acting in a like capacity and familiar with investment matters would use in the investment of funds of like character and with like aims, to safeguard the principal and maintain the liquidity needs of the Municipality. Investment officials are required to:

a) Adhere to written procedures and policy guidelines.

b) Exercise due diligence.

c) Prepare all reports timeously.

d) Exercise strict compliance with all legislation.

8.5 Ownership

All investments must be made in the name of the Newcastle Municipality.

9. INVESTMENT PRINCIPLES

9.1 Limiting Exposure

a) Where large sums of money are available for investment the Chief Financial Officer shall ensure that they are invested with more than one institution, wherever practicable, in order to limit the risk exposure of the Municipality.

b) The Chief Financial Officer shall further ensure that as far as it is practically and legally possible, the Municipality's investments are so distributed that more than one investment category is covered i.e. Call, Money Market and Fixed Deposit. There is a limitation to the extent on investment on the institution selected. Not more than 30% of the Municipality's investments may be made with any one investment entity at a given time. This excludes investments matched to identify projects, working capital or held in the One Day Call Account. Any investments made shall be placed with registered banks.

9.2 Risk and Return

The offer of best interest rates on an investment must be considered with the degree of risk involved to both the financial institution and the investment instrument concerned. No investment shall be made with an institution where the degree of risk is perceived to be higher than the average risk associated with investment institutions. Money's invested may not be made for speculation and no funds may be borrowed at any time to be used for investments.

10. INVESTMENT PROCEDURE

10.1. After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer must consider the way in which the investment is to be made.

10.2. Short-term Investment

a) The term of investment shall not be more than 12 months.

b) Quotations must be obtained from a minimum of three registered financial institutions, for the term of which the funds will be invested.

c) Should one of the institutions offer a better rate for a term, other than the term originally quoted for, the other institutions which were approached, must also be asked to quote a rate for the other term.

d) Quotations must be obtained via e-mail communication, as rates generally change on a regular basis and time is a determining factor when investments are made.

e) No attempts must be made to make institutions compete with each other.

10.3. Long-term investment

a) Written quotations must be obtained for investments made for periods longer than twelve months.

b) The prior approval of the Accounting Officer must be obtained for all investments made for periods longer than twelve months after considering the cash requirement for the next three years.

10.4. Investment maturity

a) Upon maturity of the investment the Municipality shall do one of the following:

i. Shall withdraw the whole amount invested.

ii. Shall re-invest 100% interest plus the original amount that had been invested, in terms of the investment procedure, unless if Council wishes to utilize the original money or the interest.

iii. Shall invest in part.

10.5. Early withdrawal of invested funds

a) When investing the funds with the banking institutions, the Chief Financial Officer shall ensure that such funds are not withdrawn earlier than the maturity date agreed upon, by so doing the Municipality will not incur fruitless and wasteful expenditures in form of penalties resulting from early withdrawal of investments.

b) The Chief Financial Officer shall only withdraw funds if :

i) the banking institution concerned has agreed to exempt any penalties due to early withdrawal of investment or;

ii) the Accounting Officer my grant approval to withdraw the invested funds after he/she has satisfied himself/herself that the urgency was unforeseeable at the time when funds were invested and that the need for funds far outweighs the penalties being paid for such early withdrawal

11. CONTROL OVER INVESTMENTS

11.1 The Chief Financial Officer shall ensure that proper records are kept of all investments made by the Municipality. Such records shall indicate:

i. The date on which the investment is made
ii. The institution with which the money's are invested
iii. The amount of investment
iv. The interest rate applicable and
v. The maturity date

11.1.2 The Chief Financial Officer shall ensure that all interest and capital properly due to the Municipality are timeously received and shall take appropriate steps if interest or capital is not fully or timeously received.

11.2 The Chief Financial Officer shall ensure that all investment documents are adequately safeguarded.

11.3 If an Investment Adviser is ever engaged, the Chief Financial Officer shall ensure that such Adviser has the credentials specified for the "Investment Manager" in Regulation 1 of the Act.

11.4 Any investment placed over twelve months shall also be advertised in the paper circulating in the area.

12 BANKING ARRANGEMENTS

12.1 The Accounting Officer is responsible for the management of the Municipality's bank accounts, but may delegate this function to the Chief Financial Officer. The Accounting Officer and Chief Financial Officer are authorised at all times to sign cheques and any other documentation associated with the management of such

accounts. The Accounting Officer, in consultation with the Chief Financial Officer, is authorised to appoint two or more additional signatories in respect of such accounts, and to amend such appointments from time to time.

12.2 In compliance with the requirements of good governance, the Accounting Officer shall open a primary bank account for ordinary operating purposes, and shall further maintain a separate accounting records for each of the following: the administration of Government grants & Subsidies, monies received from Department of Human Settlements for the administration of various housing projects.

12.3 The Accounting Officer shall invite tenders in accordance with the necessary SCM Regulations & Policies in as far as the opening of the primary bank account is concerned.

13 GENERAL INVESTMENT PRACTICE

13.1 General

After determining whether there is cash available for investment and fixing the maximum term of investment, the Chief Financial Officer or his/her Delegate must consider the way in which the investment is to be made. As rates can vary according to money market perceptions with regard to the terms of investment, quotations must be requested via email, within term limitations, and these must be set out on a schedule.

13.2 Commission Certificate

The Auditor General requires the financial institution, where the investment is made, to issue a certificate for each investment made. This certificate must state that no commission has, nor will, be paid to any agent or third party, or to any person nominated by the agent or third party.

13.3 Reports

The Council must be given a monthly report on all investments.

13.4 Cash in the Bank

Where money is kept in current accounts, it would be possible to bargain for more beneficial rates with regards to deposits, for instance call deposits. Fixed term

deposits can increase these rates. The most important factor is that the cash in the current account must be kept to an absolute minimum.

13.5 Obtaining Quotations

a) Quotations for call deposits greater than 7 days, fixed deposits or any other investment with a financial institution should be requested via e-mail for a period within the limitations of the anticipated term of the investment.

b) Quotations must be solicited from a minimum of three registered financial institutions referred to, bearing in mind the limits of the term for which it is intended to invest the funds.

c) All quotations must be recorded on a schedule by the accountant. This schedule, together with the printed e-mails, must thereafter be given to the Chief Financial Officer for review and final consideration.

d) The person responsible for requesting quotations from institutions should record the name of institution, the name of the person who gave the quotation and the relevant terms and rates and other facts such as whether the interest is payable on a monthly basis or on a maturity date. Written confirmation of the quotation accepted is essential.

e) Where an investment is made at an institution at a rate lower than that of other quotations, reasons must be recorded by the Accounting Officer/delegated official and reported to Council as part of the SCM quarterly report by the Accounting Officer or his/her delegated official.

14 INTERNAL CONTROL PROCEDURES

14.1 An investment register must be kept of all investments made. The following facts must be indicated:

a) Name of institution;

b) Capital invested;

c) Date invested;

d) Interest rate; and

e) Maturity date and

f) Interests earned on investments,

g) The Reason for investment (Purpose).

14.2 The investment register and accounting records must be reconciled on a monthly basis. The investment register must be examined on a fortnightly basis by the senior official under the direction of the Chief Financial Officer as instructed, to identify investments falling due within at least two weeks.

14.3 Where investments are to be undertaken for a period longer than three (3) months, a cash flow analysis is required.

14.4 Interest, correctly calculated, must be received timeously, together with any distributable capital. The Chief Financial Officer or his or her assignee must check that the interest is calculated correctly, in terms of sound universally accepted financial management practices.

14.5 All investment must be denominated in South African Rand (ZAR)

15 AUTHORITY

The Accounting Officer is responsible for ensuring that this Policy is implemented and enforced. The Accounting Officer may delegate any authority and duty assigned to him within this Policy by delegating it in writing and in conformance with requirements of the MFMA.

16 IMPLEMENTATION OF THIS POLICY

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.

The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

Draft

NEWCASTLE MUNICIPALITY

BORROWING POLICY

DRAFT

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1. PREAMBLE

1.1 Considering the large demand for municipal infrastructure, borrowing is an important element to obtain additional funding sources to fund the municipal capital programme over the medium term.

1.2 Given that a large portion of municipal infrastructure has a long-term economic life and a general principle is that the current ratepayers should not pay for the usage of future ratepayers, there is a strong economic argument to finance this capital expenditure through long-term borrowing in order to accelerate the pace of delivery and to mirror the repayment of funds with the economic life of the asset.

2. DEFINITIONS

"***Act***" means the Local Government: Municipal Finance Management Act, 2003 (Act No. 56 of 2003).

"current year" means the financial year which has already commenced but not yet ended;

"debt" means-

(a) monetary liability or obligation created by a financing agreement, note, *55* debenture, bond or overdraft, or by the issuance of municipal debt instruments: or

(b) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another;

"***disclosure statements***" means a statement issued or to be issued by:

- a municipality which intends to incur debt by issuing municipal debt instruments; and
- a person who intends to incur debt by issuing securities backed by municipal debt.

"***financing agreement***" means any loan agreement, lease, instalment, purchase arrangement under which a municipality undertakes to repay a long-term debt over a period of time.

"***lender***" in relation to a municipality means a person who provides debt finance to the municipality.

"***long term debt***" means debt repayable by the municipality over a period exceeding one (1) year.

"***municipal debt***" means:

(c) a monetary liability or obligation on a municipality by:

- a financing agreement, note, debenture, bond or overdraft; and
- the issuance of municipal debt instruments.

(d) a contingent liability such as that created by guaranteeing a monetary liability or obligation of another.

"***security***" means any mechanism intended to secure the interest of a lender or investor and includes any of the mechanisms mentioned.

"***short term debt***" means debt that is repayable over a period not exceeding one (1) year.

3. POLICY OBJECTIVES

The objectives of the policy are to:

3.1 enable the municipality to exercise its obligation to ensure sufficient cash resources to implement capital programme in the most cost effective manner;

3.2 ensure compliance with the relevant legal and statutory requirements relating to municipal borrowing;

3.3 govern the taking up of short-term and long-term debt according to the legislative framework;

3.4 manage interest rate and credit risk exposure;

3.5 maintain debt with specified limits and ensure adequate provision for the repayment of debt; and

3.6 maintain financial sustainability.

4. SCOPE OF THE POLICY

4.1 This policy shall apply to the Council, Executive Committee, all Portfolio Committees, Accounting Officer and Strategic Executive Directors. It is, however, specifically applicable to the council and all officials who have a formal, administrative duty to deal with capital projects and programmes of the municipality management of budget.

5. APPLICABLE LEGISLATION

5.1 In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 6 on Debt, Section 45 (1) which deals with short-term debts states that a municipality may incur short-term debt only in accordance with and subject to the provisions of the act and only when necessary to bridge shortfalls and capital needs within a specific financial year.

5.2 In terms of the Municipal Finance Management Act, No. 56 of 2003, Chapter 6 on Debt, Section 46 (1) which deals with long-term debts states that a municipality may incur short-term debt only in accordance with and subject any applicable provisions of the act, including Section 19 for the purposes of capital expenditure or re-financing existing long-term debt.

5.3 Local Government Municipal Regulations and Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007 further regulates compulsory disclosures when incurring municipal debt and securities backed by municipal debt.

6. BORROWING PRINCIPLES

6.1 The economic life of assets should always be equal to or longer than the tenure of the debt finance.

There are five main reasons why access to financial markets is considered important for local authorities. These may be summarised as follows:

- *Access to capital.* Local governments in SA are responsible for infrastructure that requires large, "lumpy" capital investments on a periodic basis. Given the extensive needs in SA, financing this investment on a "pay-as-you-go" or "taxation-in-advance" basis is usually neither possible nor efficient. Particularly where the need for capital greatly exceeds what is available on a grant basis from the central fiscus, access to capital markets can provide municipalities with the capital resources necessary to finance infrastructure investments efficiently.

- *Inter-temporal equity.* The benefits of the infrastructure investments that municipalities make often endure for extensive periods and accrue to future generations of taxpayers and consumers. It is equitable for such generations to bear some of the costs of these benefits. Financing investment over time with funds accessed from capital markets allows for this.

- *Efficiency.* Because capital markets allocate capital resources on a commercial basis, capital should be appropriated efficiently. Moreover, the opportunity costs of capital provide incentives to ensure efficient standards of delivery and discouraged "overbuilding" and wasteful investment.

- *Accountability.* Markets tend to punish poor fiscal and management performance through pricing (pushing up interest rates or making capital increasingly scarce.) This can promote accountability and fiscal discipline at the local level. It may also provide other stakeholders (national government; the provinces; aid agencies and so on) with a convenient means to assess the relative performance of municipal governments.

- *Short-term matching of revenues and expenditures.* In the short term – for example within a given financial year – municipal revenues and expenditures are seldom completely congruent in time. Short-term borrowing allows municipalities to deal with this lack of synchronicity.

- International experience suggests that achieving these benefits depends on the method of access and the conditions under which this access occurs. In principle there are two main routes here: local governments can access capital markets through "on-lending" from central government, most often through a *Policy Framework for Municipal Borrowing and Financial Emergencies* 9 public intermediary (a financial parastatal), or they may access the markets directly.

In SA the DBSA, which is increasingly active in the municipal market, already represents one "indirect" access mechanism. As already recorded, the interface between this mechanism and the private market in respect of municipal debt is an important issue which will require further attention once the policy framework outlined below is established in legislation. The DBSA aside, there are three broad reasons that government wishes to facilitate direct access by municipalities to the capital markets:

- *Limitation of implicit or contingent liabilities.* It is important to protect central government from ultimately inheriting the debts of local government. When sub-sovereigns borrow through central government the debts of these bodies easily become the implicit or contingent liabilities of central government. Policy and legislation need to ensure that central government is not perceived as banker of last resort. This is necessary for prudent fiscal management at the national level and is fundamental to government's ability to maintain its macro targets. It is also needed to ensure that municipalities face strong incentives to improve their own management and creditworthiness, knowing that it is unlikely that central support will be forthcoming to compensate for local mismanagement or policy errors.

- *Systemic discipline.* International experience suggests that the indirect borrowing route can result in situations where credit allocation decisions become increasingly less commercial in character. Under such conditions, capital does not necessarily flow to the most productive uses, but to those players which are politically the most astute. In other words the efficiency and accountability outcomes mentioned above become diluted. Incentives for inefficient and wasteful decision-making can replace those which encourage the productive use of capital and tight financial management.

- *Expanding investment resources.* Subsovereign borrowing via the state can result in the "squeezing out" of private capital from the municipal sector, thereby narrowing the aggregate resource available for investment. Moreover, central control of borrowing can also create incentives for local governments to elude these restrictions through innovative off-budget schemes. Centralised borrowing, therefore, does not necessarily increase the ability of central government to control the liabilities of local government, but it may simultaneously diminish the overall financial resource base for investment in worthy projects.

In sum, direct access to capital markets offers the potential for a more transparent, market-based system to develop where there is a greater chance of achieving the benefits of accessing capital markets discussed above. However, it is also true that moral hazard problems – which arise from the assumption by capital markets that borrowing by local governments is ultimately backed by central government - may also develop where there is direct borrowing by sub sovereigns from private financial markets. Ultimately, such problems can never be eliminated completely. The basic objective of the detailed policy framework given below is to ensure that such risks are managed through an appropriate regulatory framework while allowing market discipline to guide the allocation of capital in order to maximise the potential benefits that this offers.

7. COMPULSORY DISCLOSURES WHEN INCURRING MUNICIPAL DEBT

7.1 When entering into discussions with a prospective lender with a view to incur municipal debt, the municipality must indicate in writing to the prospective lender whether it intends to incur short-term or long-term debt.

7.2 In the case of short-term debt it must be disclosed whether the debt is to bridge:

(a) shortfalls within a financial year during which the debt is incurred, in expectation or specific and realistic anticipated revenue to be received with that financial year; or

(b) capital needs within a financial year, to be repaid from specific funds to be received from enforceable allocation or long-term debt commitments.

7.3 In the case of long-term debt, whether the purposes of the debt is for:

(a) capital expenditure on property, plant or equipment to be used for the purpose of achieving the objectives of local government, subject to section 46(4) of the Act.

(b) refinancing of existing long-term debt, subject to section 46(5) of the Act.

8. BORROWING PROCESS

The process as required by the Act is as follows:

8.1 Short-term debt

8.1.1 Newcastle Municipality may incur short-term debt only if:

(a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

(b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

8.1.2 A short term debt transaction may be:

(c) Approve by the municipality alone; or

(d) approve an agreement with a lender for short-term credit facility to be accessed as and when required, including a line of credit or bank overdraft facility, provided that:

(i) the credit limit must be specified in the resolution of the council;

(ii) in terms of the agreement, including the credit limit, may be changed only by a resolution of the council; and

(iii) if the council approves a credit facility that is limited to emergency use, the accounting officer must notify the council in writing as soon as practical of the amount, duration and cost of any debt incurred in terms of such a credit facility, as well as options for repaying such debt.

8.1.3 Newcastle Municipality:

(a) must pay off short-term debt within the financial year; and

(b) may not renew or refinance short-term debt, whether its own debt or that of any other entity, where such renewal or refinancing will have the effect of extending the short-term debt into a new financial year.

8.1.4 No lender may willfully extend credit to a municipality for the purpose of renewing or refinancing short-term debt that must be paid off in terms of subsection 6.3 (a).

8.1.5 If a lender willfully extends credit to a municipality in contravention of paragraph 6.4, the municipality is not bound to repay the loan or interest on the loan.

8.1.6 Subsection 6.1.5 does not apply if the lender:

(a) relied in good faith on written representations of the municipality as to the purpose of the borrowing; and

(b) did not know and had no reason to believe that the borrowing was for the purpose of renewing or refinancing short-term debt.

8.2 Long-term debt

8.2.1 Newcastle Municipality may incur long-term debt only if:

(a) a resolution of the municipal council, signed by the mayor, has approved the debt agreement; and

(b) the accounting officer has signed the agreement or other document which creates or acknowledges the debt.

8.2.2 Newcastle Municipality may incur long-term debt only if the accounting officer of the municipality:

(a) has, in accordance with section 21A of the Municipal Systems Act:

(i) at least twenty one (21) days prior to the meeting the council at which approval for the debt is to be considered, made public an information statement setting out particulars of the proposed debt, including the amount of the proposed debt, the purposes for which the debt is to be incurred and particulars of any security to be provided; and

(i) invited the public, the National Treasury and the relevant provincial treasury to submit written comments or representations to the council in respect of the proposed debt; and

(b) has submitted a copy of the information statement to the municipal council at least twenty one (21) days prior to the meeting of the council, together with particulars of:

(i) the essential repayment terms, including the anticipated debt repayment schedule; and

(i) the anticipated total cost in connection with such debt over the repayment period.

8.2.3 Capital expenditure contemplated in 5.3(a) may include:

(a) financing costs, including:

(ii) costs associated with security arrangements in accordance with section 48 of the Act;

(iii) discounts and fees in connection with the financing;

(iv) fees for legal, financial, advisory, trustee, credit rating and other services directly connected to the financing; and

(v) costs connected to the sale or placement of debt, and costs for printing and publication directly connected to the financing.

(b) costs of professional services directly related to the capital expenditure; and

(c) such other costs as may be prescribed.

8.2.4 A municipality may borrow money for the purpose of refinancing existing long-term debt, provided that:

(a) the existing long-term debt was lawfully incurred;

(b) the refinancing does not extend the term of the debt beyond the useful life of the property, plant or equipment for which the money was originally borrowed;

(c) the net present value of projected future payments (including principal and interest payments) after refinancing is less than the net present value of projected future payments before refinancing; and

(d) the discount rate used in projecting net present value referred to in paragraph (c), and any assumptions in connection with the calculations, must be reasonable and in accordance with criteria set out in a framework that may be prescribed.

8.2.5 A municipality's long-term debt must be consistent with its capital budget referred to in section 17(2) of the Act.

9. CONDITIONS APPLYING TO BOTH SHORT-TERM AND LONG-TERM DEBT

9.1 Newcastle Municipality may incur debt only if:

(a) the debt is denominated in rand and is not indexed to, or affected by fluctuations in the value of the rand against any foreign currency; and

(b) section 48(3) of the Act has been complied with, if security is to be provided by the municipality.

10. SECURITIES

10.1 Newcastle Municipality may by resolution of its council provide security for:

(a) any of its debt obligations; and

(b) contractual obligations of the municipality undertaken in connection with capital expenditure by the persons on property, plant or equipment to be used by the municipality or such other person for the purpose of achieving the objectives of local government in terms of section 152 of the Constitution.

10.2 Appropriate security is contemplated in section 48(2) of the Act.

10.3 Other additional conditions to be complied with are contemplated in section 48(3) to (5) of the Act.

11. DISCLOSURE

11.1 Any person involved in the borrowing of money by a municipality must, when interacting with a prospective lender or when preparing documentation for consideration by a prospective investor:

(a) disclose all information in that person's possession or within that person's knowledge that may be material to the decision of that prospective lender or investor; and

(b) take reasonable care to ensure the accuracy of any information disclosed.

11.2 Lender or investor may rely on written representations of the municipality signed by the accounting officer, if the lender or investor did not know and had no reason to believe that those representations were false or misleading.

12. GUARANTEES

12.1 Newcastle Municipality may not issue any guarantee for any commitment or debt of any organ of state or person, except on the following condition:

(a) the guarantee must be within limits specified in the municipality's approved budget.

12.2 Neither the national nor a provincial government may guarantee the debt of a municipality except to the extent that chapter 8 of the Public Finance Management Act provides for such guarantees.

13. SUBMISSION OF DOCUMENTS

13.1 When entering into discussion with a prospective lender with a view to incur short-term or long-term debt, the following information must be made available to the prospective lender.

(a) audited financial statements for the preceding three (3) financial years with audited outcomes;

(b) approved annual budget;

(c) the municipal integrated development plan;

(d) repayment schedules pertaining to existing short-term or long-term debt.

14. NOTIFICATION TO NATIONAL TREASURY

All information prescribed in the act must be provided to National Treasury with respect to a long-term debt proposal. Any intention to incur a long term debt must also be reported to National and Provincial Treasury for the purpose of affordability assessment.

15. FINANCIAL AFFAIRS OF THE MUNICIPALITY

The following information concerning the financial situation and financial management of the municipality must be disclosed:

(a) schedule of all long-term debt obligations stating principal and interest payments for the life of all loans and any security provided to secure such debt;

(b) the amount of any short-term debt outstanding;

(c) the revenue of the municipality for the preceding three (3) financial years stated separately:
  (i) government grants and public donations;
  (ii) revenue from rates and service charges; and
  (iii) other revenue sources
(d) what source of funding will be used to repay the loan;
(e) details of any default by the municipality on outstanding or repaid debt during the preceding three (3) years;
(f) the reserves of the municipality;
(g) a summary of financial policies and practices; and
(h) the latest credit rating obtained.

16. INTEREST RATE RISK

16.1 As a general principle when interest rates are expected to decrease, it is advisable that a floating rate be negotiated in order to take advantage of the lower interest rates in future. If interest rates are expected to increase, it is advisable to obtain a fixed rate so that the benefits of the current low interest rate are maintained.

16.2 The interest risk must be limited in so far as possible. The policy directive is to negotiate fixed interest rates for all long-term borrowings. This will ensure stability of the repayments and reduce the risk for high rates and tariff increases as a result of interest rate hikes in the market.

16.3 Variable rates should be considered for short-term debt only.

17. LIMITATIONS

To ensure a financial viable municipality the following ratios are used to determine the municipal gearing ability to borrow:

- long-term credit rating of BBB;
- interest cost to total expenditure to not exceed 8%;
- long-term debt to revenue (excluding grants) not be exceed 50%;
- payment rate mature above 95%; and
- percentage of capital charges to operating expenditure less than 18%.

18. IMPLEMENTATION AND REVIEW OF THIS POLICY

18.1 The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director for Financial Services Department once approved by Council. All future borrowings must be considered in accordance with this policy read with MFMA and Local Government Municipal Regulations and Debt Disclosure, Regulation R492, published under Government Gazette 29966, 15 June 2007 and other directives and guidelines issued by National Treasury.

18.2 In terms of section 17(1) (e) of the Municipal Finance Management Act, 2003 this policy shall be reviewed on annual basis to ensure that it complies with changes in applicable legislation and regulation and the reviewed policy tabled to Council for approval as part of the budget process .

18.3 This policy must be read together with the Budget and Funding and Reserves Policies; Local Government Municipal Finance Management Act, Act 56 of 2003; and Local Government Municipal Budget and Reporting Regulation, Regulation 393, published under Government Gazette 32141, 17 April 2009.

NEWCASTLE MUNICIPALITY

LOSS CONTROL POLICY

DRAFT

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DRAFT

1. INTRODUCTION

Council will bear its own damages and accident risks and be responsible for all claims and losses of Council owned property where these arise from council activities by an official who is liable in law and who is or was employed by council.

Section 78(1)(b-e) of the Municipal Finance Management Act places the onus on each official within the Department to take responsibility for the effective, efficient, economical and transparent use of financial and other resources within that official's area of responsibility. In particular, the official must take effective and appropriate steps to prevent, within that official's area of responsibility, any unauthorised, irregular, fruitless and wasteful expenditure and any under-collection of revenue due.

For the effective management of losses, potential losses and loss control can be divided to the following main functions:

a) Reporting all claims, losses, and damage

b) Ensuring the correct format and content of reports with regard to which claims, losses, and damage are registered

c) Following up and investigating any claims, losses and damage

d) Keeping a losses register in which particulars of all losses are recorded

e) Recovery of money and checking of cases to be finalised

The identification of actions or instances of neglect, which may result in potential claims against or losses for Council, is very important for instituting preventative control measures. The accounting officer or his/her assignee must delegate the responsibilities attached to loss control as set out in the Municipal Finance Management Act in terms of section 79. This official can, where necessary, obtain the support of nominated officials on a decentralised basis.

2. DEFINITIONS

For the purposes of this policy the following definitions apply:

"Claim" - a lawsuit, action, interdict, arbitration, inquest or dispute and also includes an intended lawsuit, action, interdict, arbitration, inquest or dispute.

"Losses" - any material loss or damages or prejudice to Council or a said person and, without derogating from or limiting the concept, also shortages, damages, fruitless or wasteful expenditure and compensations.

3. OBJECTIVE

This document informs departmental officials of the policy on loss control within the Department. This policy applies to all departments and officials of the Newcastle Municipality.

4. RESPONSIBILITY FOR LOSSES

The Accounting Officer has in terms of departmental financial delegation delegated the acceptance of liability for any loss or damage suffered by another person, as for a claim against council, which arose from an act or omission of an official, to the Strategic Executive Director concerned.

4.1 In terms of Newcastle Municipality Assets Management Policy:

Paragraph 13.2
Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Paragraph 13.3 – Safekeeping of Assets:
Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken. The municipality shall establish and implement the Loss Control Policy for such purpose. This is in view to compliance with the Municipal Finance Management Act and other relevant prescripts

REPORTING POTENTIAL CLAIMS, LOSSES AND DAMAGE

1. LOSS CONTROL OFFICERS AND THEIR DUTIES
a) On account of the organizational composition of the assets & control, a central loss control officer shall be appointed for the purpose of loss control in a regulated and effective manner.

b) The loss control officer shall be responsible for loss control in all the departments of the municipality.

c) The Accountant: Asset Management in the Budget and Treasury Office shall assume the position and the responsibilities of a central loss control officer.

1.1 Appointment of the central loss control officer

1.1.1 The duties attached to loss control shall be sub-delegated by the Chief Financial Officer to the Accountant: Asset Management in terms of delegation. These powers have been delegated to the Chief Financial Officer by the Accounting Officer.

1.1.2. A copy of the letter of appointment must be sent by the Chief Financial Officer to all departments. This also applies when the appointed loss control officer is replaced. The letter of appointment or resolution of a central loss control officer shall contain his or her particulars regarding his or her name, position, office address and telephone number and the responsibilities attached to the appointment.

1.2 The duties of the central loss control officer

1.2.1 The following duties must be delegated to the central loss control officer in writing:

- Obtaining all details, statements, etc. in connection with claims and losses in a loss register
- The timely reporting of all claims and losses to the Chief Finance Officer, Asset Management Committee as well as to the Municipal Insurer. Copies of the Departmental Losses must be submitted to the central loss control officer as soon as all documents are attached.
- Liaising with the Legal Office
- Monitoring claims to prevent prescription
- Reminding all employees periodically, by means of departmental directives, instructions, etc. that everything possible must be done on a continuous basis to prevent claims against Council from arising, or to shield the Council against losses.
- If there were no losses for the period, the CFO must be informed quarterly either by e-mail or in writing that there were no losses.
- Following up with Council Insurance broker and settling of such cases
- Regular checking of losses registers and cases recorded therein
- Checking all cases for authorization by Treasury, the accounting officer or directors

- The reconciliation of written–off items with the respective lost items in the budgeting of expenditures in cases where book entries have been made for the accounting of the written-off items
- Reporting all cases to the office of Auditor –General
- Introducing preventative measures to avoid the recurrence of any losses
- insuring proper accounting entries for all asset loss and replacement either through council reserves or through the Council insurance broker
- ensure proper administration of recovery of losses after officials, where applicable.

2. PROCEDURES FOR REPORTING ALL CLAIMS, LOSSES AND DAMAGE

2.1 Reporting cases to the loss control officer

2.1.1 Each Strategic Executive Director must see to it that all cases (of the kind mentioned above), which arise in the relevant directorate and offices or institutions under its management, are timeously reported to the loss control officer.

2.1.2 Cases must be reported to the loss control officer through the submission of a properly completed loss report

2.1.3 Upon receipt of the report, the loss control officer must enter the case forthwith in the losses register and assign a unique loss register number to it. A case file must also be opened for each case.

2.2 Reporting cases to Chief Finance Officer

2.2.1 The loss control informs the Chief Financial Officer of all cases that have arisen in a particular directorate and in the offices/institutions under its management. The loss report together with any other supporting documentation relevant to the case must be sent to the Chief Financial Officer for noting and monitoring.

2.2.2 The loss report consists of the following sections:
(a) A loss control form shall be designed and completed by all departments and officials who has suffers loss or damage and submitted to the loss control officer;
- As soon as the forms are received, the loss control officer must allocate a losses register serial number to the case.

- After it has been completed and signed, the loss control sends the notification report to the Chief Financial Officer.
- The head of the relevant department/section shall complete relevant sections of the form and must see to it that all the required declarations are attached, together with all necessary documents.

2.3 General

2.3.1 The loss control officer must ensure that cases as set out above are noted and reported to the Chief Financial Officer and the losses register serial numbers are allocated numerically to cases in the register

2.3.2 No recording of any losses, claims or damage will be dealt with by the departments. Rejections will be dealt with centrally by the loss control officer.

2.3.3 Cases involving more than one item may be reported and entered in the losses register as one case. The number of items and their value must however, be specified separately.

2.3.6 After the cases are recorded by means of the above-mentioned process on the loss control register, the loss control officer must see to it that the cases are followed up and finalized as soon as possible.

3. REPORTING TO THE OFFICE OF AUDITOR –GENERAL

If necessary, the loss control officer shall report to the office of the Auditor –General all items written off and all cases of financial crimes committed during the year by officials of the municipality.

FOLLOWING UP AND INVESTIGATING ANY POTENTIAL CLAIMS, LOSSES AND DAMAGE

1. CASE FILES

1.1 The loss control officer shall keep a case file for each case entered in the loss control register. The correspondence concerning the case and final authorisation to write off the loss, deficit or payment shall be kept in a similar case file.

1.2 The loss control officer shall keep similar case files updated. The loss control officer must therefore as soon as a case has been finalized, provide the official who submitted the case with the relevant authorisation or decision leading to closure of the case. All addenda to the authorisation and/or decision by the Legal Service, if any, must be attached to the authorisation.

1.3 The case file kept by the loss control officer and filed according to the serial number in the loss control register.

2. SAFE-KEEPING AND DISPOSAL OF CASE FILES

2.1 In terms of Section 13(4) of the National Archives of South Africa (Act No 43 of 1996), read with paragraph 1.4 of the Archives Instructions, loss control officers must ensure the safe keeping of all case files, registers and records in their care.

2.2 Disposal of the above-mentioned case files, registers and records will be in terms of paragraph 2 of the Archives Instructions.

3. FOLLOWING UP AND DEALING WITH CASES

3.1 The loss control officer must ensure that all cases are followed up regularly and, where applicable, handed over to the South African Police Service.

3.2 If a legal opinion must be obtained for a particular case, the loss control officer shall liaise with the legal section of the municipality and ensure that the following information is provided:
- Full particulars concerning the case and the circumstances that led to it,
- Statements containing all relevant information by all persons involved,
- All other documentation related to the case

3.3 The latest progress made with a case must be cleared indicated in the loss control register and be sent for the attention of the Chief Financial Officer.

3.4 The CFO will regularly check departmental losses in order to ensure regular follow-up and full reporting to the Auditor –General or South African Police Services where applicable.

4. UNAUTHORISED, IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE

4.1 According to Chapter 1 of the MFMA:
"Fruitless and wasteful expenditure" means expenditure, which was made in vain and which would have been avoided had reasonable care been exercised.
"Irregular expenditure" means expenditure, other than unauthorized expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including-
(a) This Act; or
(b) The Municipal Systems Act (Act 20 0f 1998)
(c) The Public Office-Bearer Act, 1998
(d) Any provincial legislation providing for procurement procedures in that provincial government:

"Unauthorized expenditure," means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3) and includes-
(a) Overspending of the total amount appropriate in the municipality's approved budget
(b) Overspending of the total amount appropriated for a vote of the approved budget
(c) Expenditure from a vote unrelated to the department or functional area covered by the vote
(d) Expenditure of money appropriated for a specific purpose, otherwise than for the specific purpose

4.2 The above-mentioned expenditure must be dealt with according to the guidelines for the preparation of annual reports for national and provincial departments, issued by the National Treasury. These guidelines are updated annually and are available on the National Treasury website of the Office of the Accountant General (OAG) under the public link.

4.3 Where the final outcome of the investigation reveals any negligent on the part of the official, any financial loss shall be recovered directly from the official concerned. Any arrangement to recover such costs shall be decided in consultation with the Chief Financial Officer, the legal department and the official concerned.

4.4 In cases where the Council insurance broker has settled the claim of a loss, however the official is still regarded as negligent, the official concerned shall be personally liable for excess amount payable by the council to the insurance broker.

4.5 In cases where the loss or damage is contravention of the Criminal Procedure Act No.51 of 1977, the cases shall also be reported to the South African Police Services. Such cases must also be followed up to finality in terms of this policy.

5 GENERAL

5.1 CLAIMS AGAINST THE MUNICIPALITY THROUGH ACTS OR OMISSIONS

Council shall accept liability for any loss or damage suffered by another person (Third Party), as for a claim against the municipality, arising from an act or omission of an official. Due cognisance must take place to ensure that claim exist and falls within stated regulations

5.2 CLAIMS BY THE MUNICIPALITY AGAINST OTHER PERSONS

The Accounting Officer has delegated the institution of legal action, where the Council suffers a loss or damage and the other person denies liability, to the Manager: Legal Services. Should it be deemed economical, the matter may be referred to one of panel members of attorneys as appointed by the municipality in terms of its Supply Chain Management Policy.

5.3 CLAIMS BY OFFICIALS AGAINST THE MUNICIPALITY

The Accounting Officer has delegated the compensation of an official, who has suffered a loss or damage in the execution of official duties, to the Strategic Executive Director: Corporate Services, who may make good the loss or damage provided that the official can prove such loss or damage.

5.4 LOSSES OR DAMAGES THROUGH CRIMINAL ACTS OR OMISSIONS

The Accounting Officer has delegate the recovery of losses or damages, through criminal acts or possible criminal acts, to the Manager: Legal Services. The matter shall be reported, in writing, to the Accounting Officer and the South African Police Service. In the case of omission, the matter shall be reported, in writing, to the Accounting Officer. Whether or not

the person is still in the employ of the Municipality, the Department shall recover the value of the loss or damage from the person responsible.

5.5 RECOVERY OF LOSSES AND DAMAGES

Losses and damages suffered by the municipality, because of an act committed or omitted by an official, shall be recovered from such an official if that official is liable in law.

Note: The Accounting Officer has delegated the recovery of losses or damages to the Chief Financial Officer.

5.6 UNAUTHORISED, IRREGULAR, FRUITLESS ANS WASTEFUL EXPENDITURE

The recovery of losses or damages resulting from unauthorised, irregular or fruitless and wasteful expenditure must be dealt with in accordance with the MFMA Section (5). The writing off in terms of subsection (2) of any unauthorised, irregular or fruitless and wasteful expenditure as irrecoverable is no excuse in criminal or disciplinary proceedings against a person charged with the commission of an offence or a breach of this Act relating to such unauthorised, irregular or fruitless and wasteful expenditure.

Section 32 (2) (MFMA) states that a municipality must recover unauthorised, irregular or fruitless and wasteful expenditure from the person liable for that expenditure unless the expenditure—
(a) In the case of unauthorised expenditure, is—
(ii) Certified by the municipal council, after investigation by a council Committee, as irrecoverable and written off by the council; and
(b) In the case of irregular or fruitless and wasteful expenditure, is, after investigation by a council committee, certified by the council as irrecoverable and written off by the council.

6. MANAGEMENT REPORTING

The Budget and Treasury Office shall report on all losses and the status of losses to the Municipal Public Accounts Committee on a monthly basis.
The Chief Financial Officer shall include the following particulars with the annual report and audited financial statements:

(a) any material losses through criminal conduct, and any unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, that occurred during the financial year;
(b) any criminal or disciplinary steps taken as a result of such losses, unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure;
(c) any material losses recovered or written off; and
(d) any other matters that may be prescribed.

KEEPING AN UPDATED STANDARDISED LOSSES REGISTER IN WHICH ALL PARTICULARS CAN BE ENTERED

1. The loss control officer keeps a central register in which all claims, losses, etc. which arise in the Departments are entered. This register is known as the Central Loss Control register.

2. The losses registers must indicate the following particulars for each case:
2.1 Date received: The date on which the case was received
2.2 The serial number allocated to the case
2.4 The file number of the department/derectorate where the case arose
2.5 The date on which the claim, loss, etc .arose or was discovered (N.B. This is not the date on which the loss was reported to the loss control officer.)
2.6 A factual description of the claim losses. If known, the place where it happened and the person responsible must also be mentioned
3.7 The estimated amount of the claim or losses.
3.8 The amount authorized to be written off, where applicable.
3.9 The amount to be recovered from a person or an institution, where applicable
3.10 The rank of the person who, in terms of the delegated powers, gave authorization to write off a loss, recovery of loss or to pay out a claim.
3.11 The number allocated to the delegated authority by which it was authorised
3.12 The latest progress made must be indicated briefly. Full details of the progress made with a case must be entered in the relevant case file

FINALISING OF CASES

1. FINALISING OF LOSSES
When it has been determined after regular follow-ups that certain losses must be written off or where expenditure needs to be condoned, the loss control officer must draw up the relevant submission (see paragraph 3 & 4 of this chapter).

1.1 Writing off losses against the Council and other cases involving monetary transactions
When authorisation has been obtained in accordance with the delegated powers for writing off a loss or deficit, the following procedure is followed:

1.1.1 When authorisation has been obtained, the Chief Financial Officer provides the loss control officer (who must bring items written off to account) with a copy of the authorisation to make the required journal entry.

1.1.2 The loss control officer, who is doing the journal entry, attaches the copy of the authorization to the original journal and enters the authorization number and the date in the journal.

1.1.3 A copy of the numbered journal must be filed in the file of the loss control officer.

1.2 Partial writing off of losses against the Council and other cases involving monetary transactions

When responsibility for the specific loss, damage or deficit has been determined, the following procedure must be followed:

1.2.1 The amount of the loss, damage or deficit, as determined by the foregoing investigation, must be recovered from a particular person or institution. The loss control officer enters this amount in the "amount recoverable" column of the losses register.

1.2.2 As soon as the recoverable amount has been recovered in full, it must be noted as such in the "Follow –up" column of the losses register. Proof of full settlement of the amount, such as copy of the receipt, must be kept in the relevant case file and sent to the loss control officer for closure of the case.

1.2.3 If the debt is to be repaid in the monthly instalments, a copy of this decision with particulars regarding the deductions must be kept in the case file and sent to the loss control officer. For recording purposes, the date on which the last instalment is payable must be entered in the "follow- up" column of the loss register. As soon as the final instalment has been received, all substantiating documents must be sent to the loss control officer for closure of that case.

1.2.4 If the amount cannot for some reason be recovered, the writing off of the outstanding amount must be considered.

1.3 Writing off losses or damage to Council property

1.3.1 Authorisation with full particulars, for something must be available in the case file and sent to the loss control officer.

1.3.2 As soon as the appropriate columns in the loss control register dealing with authorisation have been completed, the loss control officer has been supplied with a copy of the authorization, and the loss control officer has checked the submission, the case is regarded as settled.

1.3.3 "Council property" includes, inter alia:
- all stock and equipment issued or held to be issued;
- all buildings or structures, etc. that are property of the Council
- all vehicles or machinery that belong to the Council

1.4 Claims against the Council and ex gratia payments

1.4.1 The payment of a claim or an amount in terms of a settlement by the Legal Department, if the Accounting Officer or the Budget and Treasury Officer approves, can be made against the appropriate provision in the vote item if, at the time of the payment, it had already been established that the Council alone was responsible and that the person in question has not forfeited his or her protection.

1.4.2 Full authorisation (together with addenda referred to in submission, if any) must be attached to the payment form used to apply for payment, to serve as documentary evidence.

1.4.3 If finality concerning the liability of an intended person has not been reached by the time of the payment, the payment is made provisionally from an appropriate suspense account.

1.4.4 Should it be found that the Council is solely accountable; the amount will be settled by journal entry to the appropriate provision on the budget vote concerned. Full particulars concerning the finding and authorization are attached to the journal and must be referred to in the journal.

1.4.5 If it is found that the intended person is solely accountable, or jointly accountable with the Council, that the part of the claim for which the intended person is responsible plus the legal costs will be recovered from that person and credited to the appropriate suspense account. That part of the claim for which the Council is responsible must be dealt with as described in paragraph 1.4.4 above.

2. AUTHORISATIONS

2.1 All claims and loss losses must be allocated a unique serial number as stated in the title of the submission.

2.2 The loss control officer must ensure that the authorisations given by incumbents of posts in departments are appropriate and correct in accordance with delegated powers. If not, the case must be referred back to be corrected by the relevant office/institution which made the submission.

2.3 Authorisations granted by the Budget and Treasury Office and Accounting Officer will be sent via the Chief Financial Officer to the loss control officer for distribution among the offices/institutions concerned.

2.4 Authorisations granted by incumbents of posts in departments and offices resorting under them must be dealt with by the loss control officer.

4 IMPLEMENTATION

The Accounting Officer shall be responsible for the implementation and administration of this policy with the assistance of the Strategic Executive Director: Budget and Treasury Office.

The policy shall be reviewed on annual basis and updated if there are any changes brought about through an amendment of any legislation and/or policies by National Treasury or arrangement within the municipality.

Newcastle Local Municipality

ASSET MANAGEMENT POLICY

19 July 2016

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1. PREAMBLE

Whereas section 14 of the Local Government: Municipal Finance Management Act, 2003 (Act no. 56 of 2003) determines that a municipal council may not dispose of assets required to provide minimum services, and whereas the Municipal Asset Transfer Regulations (Government Gazette 31346 dated 22 August 2008) has been issued.

And whereas the municipal council of Newcastle Local Municipality wishes to adopt a policy to guide the municipal manager in the management of the municipality's assets.

And whereas the municipal manager as custodian of municipal funds and assets is responsible for the implementation of the asset management policy which regulate the acquisition, safeguarding and maintenance of all assets.

And whereas these assets must be protected over their useful life and may be used in the production or supply of goods and services or for administrative purposes.

And whereas the Municipal Manager must ensure an effective Asset Management Committee that will give guidance regarding the execution of the asset management policies and procedures is in operation.

Now therefore the municipal council of the Newcastle Local Municipality adopts the following asset management policy:

2. DEFINITIONS

Accounting Officer means the Municipal Manager appointed in terms of Section 82 of the Local Government: Municipal Structures Act, 1998 (Act no. 117 of 1998) and

being the head of administration and accounting officer in terms of section 55 of the Local Government: Municipal Systems Act 2000 (Act no. 32 of 2000).

Agricultural Produce is the harvested product of the municipality's biological assets.

Biological Assets are defined as living animals or plants.

Assets are items of Biological Assets, Intangible Assets, Investment Property or Property, Plant or Equipment defined in this Policy.

Carrying Amount is the amount at which an asset is recognised after deducting any accumulated depreciation (or amortisation) and accumulated impairment losses thereon.

Chief Financial Officer (CFO) means an officer of a municipality designated by the Municipal Manager to be administratively in charge of the budgetary and treasury functions.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction, or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

Critical Assets are assets identified as having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

Depreciable Amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair Value is the amount for which an asset could be exchanged or a liability settled between knowledgeable, willing parties in an arm's length transaction.

GAAP are standards of Generally Accepted Accounting Practice.

GRAP are standards of Generally Recognised Accounting Practice.

Heritage Assets are defined as culturally significant resources. Examples are works of art, historical buildings and statues.

Infrastructure Assets are defined as any asset that is part of a network of similar assets. Examples are roads, water reticulation schemes, sewerage purification and trunk mains, transport terminals and car parks.

Intangible Assets are defined as identifiable non-monetary assets without physical substance.

Investment Properties are defined as properties (land or buildings) that are acquired for economic and capital gains. Examples are office parks and undeveloped land acquired for the purpose of resale in future years.

Land and Buildings are defined as a class of PPE when the land and buildings are held for purposes such as administration and provision of services. Land and Buildings therefore exclude Investment properties and Land Inventories.

MFMA refers to the Local Government: Municipal Finance Management Act (Act no. 56 of 2003).

Other Assets are defined as assets utilised in normal operations. Examples are plant and equipment, motor vehicles and furniture and fittings.

Property, Plant and Equipment (PPE) are tangible assets that:-

- Are held by a municipality for use in the production or supply of goods or services, for rental to others, or for administrative purposes, and
- Are expected to be used during more than one period.

Recoverable Amount is the higher of a cash-generating asset's net selling price and its value in use.

Recoverable Service Amount is the higher of a non-cash generating asset's fair value less cost to sell and its value in use.

Residual Value of an asset is the estimated amount that an entity would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Useful Life is:-

- The period of time over which an asset is expected to be used by the municipality; or
- The number of production or similar units expected to be obtained from the asset by the municipality's accounting officer.

3. OBJECTIVE

The MFMA was introduced with the objective of improving accounting in the municipal sector in keeping with global trends. Good asset management is critical to any business environment whether in the private or public sector. In the past municipalities used a cash-based system to account for assets, whilst the trend has been to move to an accrual system.

With the cash system, assets were written off in the year of disposal or, in cases where infrastructure assets were financed from advances or loans, they were written off when the loans were fully redeemed. No costs were attached to subsequent periods in which these assets would be used.

With an accrual system the assets are incorporated into the books of accounts and systematically written off over their anticipated useful lives. This necessitates that a record is kept of the cost of the assets, the assets are verified and the condition assessed periodically, and the assets can be traced to their suppliers via invoices or other such related delivery documents. This ensures good financial discipline, and allows decision makers greater control over the management of assets. An Asset Management Policy should promote efficient and effective monitoring and control of assets.

According to the MFMA, the Accounting Officer in the Municipality should ensure:

- that the municipality has and maintains an effective and efficient and transparent system of financial and risk management and internal control;
- the effective, efficient and economical use of the resources of the municipality;
- the management (including safeguarding and maintenance) of the assets of the municipality;
- that the municipality has and maintains a management, accounting and information system that accounts for the assets and liabilities of the municipality;
- that the municipality's assets and liabilities are valued in accordance with standards of generally recognised accounting practice; and
- that the municipality has and maintains a system of internal control of assets and liabilities, including an asset and liabilities register, as may be prescribed.

The objective of this Asset Management Policy is to ensure that the municipality:

- has consistent application of asset management principles;
- implements accrual accounting;
- complies with the MFMA, Treasury Regulations, GRAP and other related legislation;
- safeguards and controls the assets of the municipality; and
- Optimises asset usage.

ASSET MANAGEMENT COMMITTEE

To facilitate and assist the Chief Financial Officer in his/her functions, the Municipal Manager, hereby, delegates the custody of and responsibility for assets to the various Strategic Executive Directors (SEDs) as defined in the organisational structure of the Newcastle Local Municipality. Strategic Executive Directors will identify officials on an appropriate level to assist them with the application of the policy and procedures proclaimed from time to time. The Asset Management Committee as established in terms of paragraph 1, must be informed in writing of the appointment of Asset Controllers.

The responsibilities for asset management as detailed hereunder include and remain until the asset is disposed of or transferred to another entity:

- Ensuring that, when acquiring assets, decisions on how to account for the transactions, e.g. whether they should be capitalised or expensed, are made in full compliance with the MFMA, accounting standards, National Treasury and other guidelines;
- Ensuring that the purchase of assets complies with all municipal policies and procedures, including the MTREF;
- Ensuring that the correct date on which an asset is put into service or commissioned is properly recorded in the Asset Register and that the appropriate financial data are recorded;
- Ensuring that all assets are duly processed, identified and recorded before being issued for use;
- Ensuring that all assets under the Asset Manager's control are appropriately safeguarded from inappropriate use or loss, including appropriate control over the physical access to these assets and regular asset verification to ensure losses have not occurred, and

ensuring that any known losses are immediately reported to the Chief Financial Officer and loss control officer;

- Ensuring that proper procedures for the movement of assets from one asset holder to another, for maintenance, or disposals outside the municipality are in place and enforced;
- Ensuring assets are utilised for the purpose for which they were acquired by the municipality.
- Ensuring that all assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected.

4. POLICY FRAMEWORK

The main challenges associated with managing assets can be characterised as follows:

- Moveable assets – controlling acquisition, location, use, and disposal (over a relatively short term lifespan)
- Immovable assets – life-cycle management (over a relatively long-term lifespan).

The policy approach has been to firstly focus on the financial treatment of assets, which needs to be consistent across both the movable and immovable assets, and secondly to focus on the management of immovable assets as a fundamental departure point for service delivery. This arrangement is summarised in Figure 1.

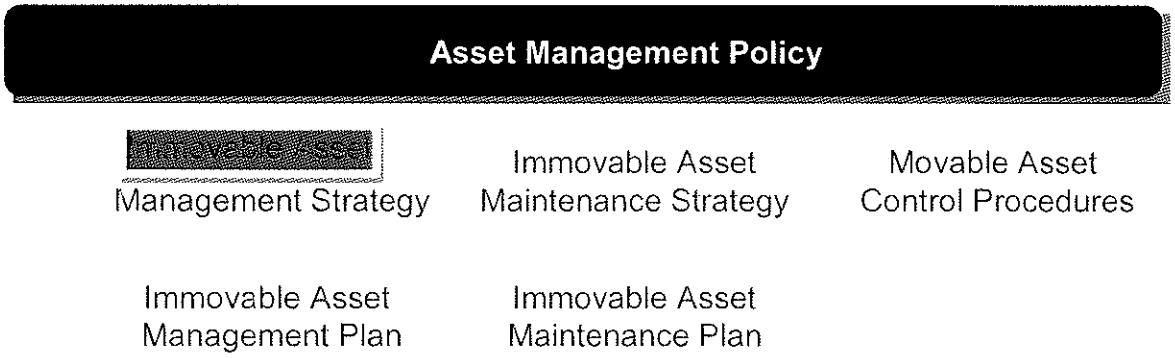

Figure 1: Proposed policy and strategic framework

5. Asset Recognition

5.1 Classification of Assets

General

When accounting for assets, the municipality should follow the various standards of GRAP relating to the assets. An item is recognised in the statement of financial position as an asset if it satisfies the definition and the criteria for recognition of assets. The first step in the recognition process is to establish whether the item meets the definition of an asset. Secondly, the nature of the asset should be determined, and thereafter the recognition criterion is applied. Assets are classified into the following categories for financial reporting purposes:

1. Property, Plant and Equipment (GRAP 17)
   - Land and Buildings (land and buildings not held as investment)
   - Community Assets (properties held to provide a social service and rental income is incidental)
   - Infrastructure Assets (immovable assets that are used to provide basic services)
   - Work in progress
   - Other Assets (ordinary operational resources)
2. Finance Lease Assets GRAP 13 (agreements that transfer the right to use assets even though substantial services by the lessor may be called for in connection with the operation/ maintenance of such assets)

3. Intangible Assets (GRAP 31)
   - Intangible Assets (assets without physical substance held for ordinary operational resources)

4. Investment Property (GRAP 16)
   - Investment Assets (resources held for capital or operational gain)

5. Heritage Assets (GRAP 103)
   - Heritage Assets

6. Agriculture (GRAP 27)
   - Biological Assets (livestock and plants held)

When accounting for Current Assets (that is of non-capital nature), the municipality should follow the various standards of GRAP relating to these assets. Current Assets (with a capital nature) are classified into the following categories for financial reporting purposes:

Further asset classification has been defined in GRAP. The classifications used for infrastructure are limited and do not represent all asset types. However, these classifications are used for financial reporting consistency and should be used.

To facilitate the practical management of infrastructure assets and Asset Register data, infrastructure assets have been further classified. The recommended classifications for all assets are provided in ***Appendix B***.

Policy

The asset classification specified by GRAP shall be adhered to as a minimum standard. The extended asset classification specified in ***Appendix B*** shall be adopted.

Procedures and Rules

- The Asset Management Committee shall ensure that the classifications specified by National Treasury, GRAP, and those adopted by the municipality are adhered to.
- The Asset Management Committee shall inform Strategic Executive Directors of the classification requirements.
- Strategic Executive Directors shall ensure that all fixed assets under their control are classified correctly.

5.2 Identification of Assets

General

An asset identification system is a means to uniquely identify each asset in the municipality in order to ensure that each asset can be accounted for on an individual basis. Movable assets are usually identified using a barcode system by attaching a barcode to each item. Immovable assets are usually identified by means of an accurate description of their physical location.

Policy

An asset identification system shall be operated and applied in conjunction with an Asset Register. As far as practicable, every individual asset shall have a unique identification number.

Procedures and Rules

- The Asset Management Committee shall develop and implement an asset identification system, while acting in consultation with Strategic Executive Directors.
- Strategic Executive Directors shall ensure that all the assets under their control are correctly identified.
- As far as practicable, all movable assets must be bar-coded or uniquely marked.
- Immovable assets must be identified using naming and numbering conventions that enable easy location of the assets in the field.
- GPS coordinates must be captured on the Asset Register for infrastructure assets and buildings where practicable. The Head: Information Technology will update the GIS and ensure that the GPS coordinates on the Asset

Register and the GIS are reconciled at least once per year after the annual physical asset verification.

5.3 Asset Register

General

An Asset Register is a database of information related to all the assets under the control of the municipality. The Asset Register consists of an inventory of all the assets, with each asset having a unique identifying number. Data related to each asset should be able to be stored in the Asset Register. The data requirements for the Asset Register are as follows:

Data type	Land	Movable	Infrastructure/ Buildings
Identification			
• Unique identification number or asset mark	✓	✓	✓
• Unique name	✓	✓	✓
• National Treasury Classification	✓	✓	✓
• Internal Classification	✓	✓	✓
• Descriptive data (make, model, etc.)	✓	✓	✓
• Erf/Registration	✓	✓	✓
• Title deed reference	✓		
Accountability			
• Department	✓	✓	✓
• Insurance reference		✓	✓
Performance			
• Age		✓	✓
• Condition		✓	✓
• Remaining Useful life		✓	✓
• Expected Useful Life		✓	✓
• Technical Asset Residual Value			✓
• Criticality		✓	✓
Accounting			
• Historic cost	✓	✓	✓
• Take on value	✓	✓	✓
• Take on date	✓	✓	✓
• Revalued amount	✓	✓	✓
• Valuation Difference (for purposes of Valuation Reserve and depreciation)	✓	✓	✓
• Depreciation method	✓	✓	✓

Data type	Land	Movable	Infrastructure/ Buildings
• Depreciation portion that should be transferred from Revaluation reserve to accumulated depreciation (where assets were revalued)	✓	✓	✓
• Depreciation charge for the current financial year	✓	✓	✓
• Depreciation charge for ensuing year (for purposes on current portion)	✓	✓	✓
• Impairment losses in the current year	✓	✓	✓
• Accumulated depreciation	✓	✓	✓
• Carrying value	✓	✓	✓
• Residual value	✓	✓	✓
• Source of financing	✓	✓	✓

Assets remain in the Asset Register for as long as they are in physical existence or until being written off. The fact that an asset has been fully depreciated is not in itself a reason for writing-off such an asset.

Policy

An Asset Register shall be maintained for all assets. In some cases, such as Investment Properties, Heritage Assets and Intangible Assets, separate Asset Registers will have to be maintained. The format of the register shall include the data needed to comply with the applicable accounting standards and data needed for the technical management of the assets. The Asset Register should be continuously updated and asset records should be reconciled to the general ledger on an annual basis.

Procedures and Rules

- The CFO must define the format of the Asset Register in consultation with the Strategic Executive Directors and must ensure that the Asset Register format complies with legislative requirements.
- The Asset Management Committee must ensure that a defined process and forms exist to update and maintain the Asset Register.
- The Strategic Executive Directors must provide the CFO with the information required to compile and maintain the Asset Register.

6. RECOGNITION OF ASSETS: INITIAL MEASUREMENT

General

An asset should be recognised as an asset in the financial and asset records when:

- It is probable that future economic benefits or potential service delivery associated with the item will flow to the municipality;
- The cost or fair value of the item to the municipality can be measured reliably;
- The item is expected to be used during more than one financial year.

Spare parts and servicing equipment are usually carried as inventory in terms of the Standard of GRAP on *Inventories* and recognised in surplus or deficit as consumed. However, major spare parts and stand-by equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

Calculation of initial cost price

Only costs that comprise the purchase price and any directly attributable costs necessary for bringing the asset to its working condition should be capitalised. The purchase price exclusive of VAT should be capitalised, unless the municipality is not allowed to claim input VAT paid on purchase of such assets. In such an instance, the municipality should capitalise the cost of the asset together with VAT. Any trade discounts and rebates are deducted in arriving at the purchase price. Listed hereunder is a list, which list is not exhaustive, of directly attributable costs:

- Costs of employee benefits (as defined in the applicable standard on Employee Benefits) arising directly from the construction or acquisition of the item of the Asset
- The cost of site preparation;
- Initial delivery and handling costs;
- Installation costs;
- Professional fees e.g. architects and engineers etc.;
- The estimated cost of dismantling and removing the asset and restoring the site; and

When payment for an asset is deferred beyond normal credit terms, its cost is the cash price equivalent. The difference between this amount and the total payments is recognised as an interest expense over the period of credit.

Subsequent Expenses

Only expenses incurred on the enhancement of an asset (in the form of improved or increased services or benefits flowing from the use of such asset), or in the material extension of the useful operating life of an asset shall be capitalised.

Expenses incurred in the maintenance or reinstatement of an asset that ensures that the useful operating life of the asset is attained, shall be considered as operating expenses and shall not be capitalised, irrespective of the quantum of the expenses concerned.

Leased Assets – (GRAP 13)

A lease is an agreement whereby the lessor conveys to the lessee, in return for a payment or series of payments, the right to use an asset for an agreed period of time. Leases are categorised into finance and operating leases:

- A Finance Lease is a lease that transfers substantially all the risks and rewards incident to ownership of an asset, even though the title may or may not eventually be transferred. Where the risks and rewards of ownership of an asset are substantially transferred, the lease is regarded as a finance lease and is recognised as an asset.
- Where there is no substantial transfer of risks and rewards of ownership, the lease is considered an Operating Lease and payments are expensed in the income statement on a systematic basis.

Policy

All assets shall be correctly recognised as assets and capitalised at the correct value. The capitalisation threshold will be determined annually by the municipality. All assets with values less than the capitalisation threshold and with values greater than R300 shall be recorded in a minor assets inventory unless such assets have been identified as being critical in which case the asset will be recorded in the Asset Register.

Procedures and Rules

- Strategic Executive Directors shall ensure that all leased assets under their control are correctly accounted for and recognised as assets.
- The CFO must keep a lease register with all the information that is necessary for reporting purposes, for example, opening balance, acquisitions, disposals, transfers, depreciation, accumulated depreciation, etc.

7. SUBSEQUENT MEASUREMENT OF ASSETS

General

After initial recognition of Property, Plant and Equipment, the municipality values its assets using the cost model, unless a specific decision have been taken to revalue a certain class of assets and in such instance the PPE will be valued using the revaluation or value model.

When an item of PPE is revalued, the entire class of property to which that asset belongs, should be revalued.

When an asset's carrying amount is increased as a result of the revaluation, the increase should be credited to a revaluation surplus. However, the increase shall be recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

When an asset's carrying amount is decreased as a result of devaluation, the decrease should be recognised as an expense in the annual financial statements. However, the decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

Procedures and Rules

- The CFO shall ensure that all Property, Plant and Equipment are correctly recorded in the Asset Register and revaluated (if applicable) in terms of the municipality's policies.

8. Asset Types

8.1 Property, Plant and Equipment: LAND AND BUILDINGS

General

Land and Buildings comprise any land and buildings held (by the owner or by the lessee under a finance lease) by the municipality to be used in the production or supply of goods or for administrative purposes and/or to provide services to the community. These assets include building assets such as offices, staff housing, aquariums, cemeteries, clinics, hospitals, game reserves, museums, parks and also include recreational assets such as tennis courts, swimming pools, golf courses, outdoor sports facilities, etc.

Land held for a currently undetermined future use, should not be included in PPE: Land and Buildings, but should be included in Investment Properties. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Land and buildings shall be accounted for using the cost model. Land shall initially be accounted for at cost price, or fair value in cases where cost price is not known, and shall not be depreciated. Land on which infrastructure and/or buildings are located shall be listed separately in the land register and not with the infrastructure or building assets. A reference to the land shall however be included in the infrastructure and/or building Asset Register.

Land and Buildings shall be recorded under the following categories;

- LAND
  - Developed Land
  - Undeveloped Land
- BUILDINGS
  - Dwellings
  - Non-residential Structures

Procedures and Rules

- The CFO shall ensure that all land and buildings are correctly recorded in the Asset Register. The Asset Management Committee shall ensure that land and buildings are revalued (if applicable) in terms of the municipality's policies.
- The CFO shall ensure the recognition, measurement and revaluation of *Land and Buildings* in terms of GRAP 17.

8.2 Property, Plant and Equipment: INFRASTRUCTURE ASSETS

General

Infrastructure Assets comprise assets used for the delivery of infrastructure-based services. These assets typically include electricity, sanitation, solid waste, storm water, transport, and water assets. Many infrastructure assets form part of a greater facility e.g. a transformer in a sub-station.

Level of detail of componentisation

For the technical management of infrastructure, the most effective level of management is at the maintenance item level. It is at this level that work orders can be executed and data collected. This data is useful for maintenance analysis to improve infrastructure management decision making. This level in most cases coincides with the level that means the accounting criteria of different effective lives and materiality. However, the collection of data at this level of detail can be very costly when dealing with assets that are very numerous in nature e.g. water meters, street signs, household connections, etc. It is therefore prudent to balance the value of the information with the cost of collecting the data.

The compilation of a detailed infrastructure Asset Register in one financial term is a costly and onerous exercise. To ensure the practicality of implementing Asset Registers (and asset management planning as a whole), the International Infrastructure Management Manual (IIMM) recommends the adoption of a continuous improvement process as a practical implementation approach. This approach recognises the value of limited data above no data and enables the municipalities to slowly, but steadily, increase their knowledge in the assets they own. The improvement principles of the IIMM recommend starting with complete coverage of the infrastructure types at a low level of detail (e.g. level 2 or 3) and then improving the level of detail over a period of several years, starting with the high risk assets, such as pump stations, treatment works, etc.

Policy

The infrastructure Asset Register shall ensure complete representation of all infrastructure asset types. The level of detail of componentisation shall be defined to a level that balances the cost of collecting and maintaining the data with the benefits of minimising the risks of the municipality. An improvement plan stipulating the level of detail and the timing of improvements shall be prepared. Infrastructure assets should be valued at cost less accumulated depreciation and accumulated

impairment. If cost can however not be established, then infrastructure assets will be valued at depreciated replacement cost. Depreciated replacement cost is an accepted fair value calculation for assets where there is no active and liquid market. Depreciation shall be charged against such assets over their expected useful lives. The remaining useful life and residual value of, and the depreciation methods applied to Infrastructure assets should be reviewed annually, but the cost related to such reviews should be measured against benefits derived to ensure value for money. Such reviews will have to be performed at least once in a three year cycle.

Infrastructure assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in ***Annexure B***.

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Infrastructure Assets shall be recorded under the following main categories;

- Electricity Network;
- Roads Network;
- Solid Waste Disposal;
- Storm Water Network

Procedures and Rules

- The Asset Management Committee shall define the level of detail of the infrastructure Asset Register in consultation with the Strategic Executive Directors.
- The Asset Management Committee shall approve an improvement process that defines the target level of detail for each infrastructure asset type with the target year of implementation in consultation with the Strategic Executive Directors.
- The Asset Management Committee shall ensure the recognition and measurement of *Infrastructure Assets* in terms of GRAP 17.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

8.3 Property, Plant and Equipment: BUILDINGS

General

Housing Assets have their origin from housing units erected in terms of the Housing Act, funded from loans granted by Government and comprise of rental stock or selling stock not held for capital gain.

Policy

Housing assets are valued at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives.

Housing Assets shall be recorded under the following main categories;

- Rental Schemes; and
- Selling Schemes.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all housing assets are appropriately recorded and valued in terms of the municipality's policies.

8.4 HERITAGE ASSETS – (GRAP 103)

General

A *Heritage Asset* is an asset that has historical, cultural or national importance and needs to be preserved. The following is a list of some typical heritage assets encountered in the municipal environment:

- Archaeological sites;
- Conservation areas;
- Historical buildings or other historical structures (such as war memorials);
- Historical sites (for example, historical battle site or site of a historical settlement);
- Museum exhibits;
- Public statues; and
- Works of art (which will include paintings and sculptures).

Policy

Heritage assets are valued at cost less accumulated impairment losses. No depreciation shall be charged against such assets. If the cost price of heritage assets are not known, then the heritage asset will be valued at fair value.

Procedures and Rules

- A register of all heritage assets will be kept by the municipality.
- For reporting purposes, the existence of such heritage assets shall be disclosed by means of an appropriate note in the Financial Statements.
- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all heritage assets are appropriately recorded and valued in terms of the municipality's policies.

8.5 Property, Plant and Equipment: OTHER ASSETS

General

Other Assets include a variety of assets that are of indirect benefit to the communities they serve. These assets include office equipment, furniture and fittings, bins and containers, emergency equipment, motor vehicles, plant and equipment.

Policy

Other assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation shall be charged against such assets over their expected useful lives. Other assets are not revalued.

Other assets having a high risk profile in terms of occupational health and safety standards and the consequence of failure could result in service delivery needs not being met and human health and safety as well as the environment being negatively affected must be rated as critical in the Asset Register. Assets identified as critical in terms of the aforementioned are identified in ***Annexure B***.

Other Assets shall be recorded under the following main categories;

- Aircraft;
- Bins and Containers;
- Emergency Equipment;
- Furniture and Fittings;
- Motor Vehicles;
- Office Equipment;
- Plant and Equipment;
- Specialised Vehicles;
- Watercraft; and
- Other Assets.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all other assets are appropriately recorded in terms of the municipality's policies.
- Although a category of assets may not be regarded as critical as a whole, individual assets may fulfil in the definition of criticality and Strategic Executive Directors must inform the Asset Management Committee of such assets or any changes in the criticality of an asset/category of assets and the Asset Registers must be updated accordingly.

8.6 Intangible Assets – GRAP 31

General

Intangible Assets can be purchased, or can be internally developed, by the municipality and includes, but are not limited to, computer software, website development cost, valuation roll, servitudes and mining rights.

Policy

Intangible assets are stated at cost less accumulated amortisation and accumulated impairment losses. Such assets are amortised over the best estimate of the useful life of the intangible asset. If an intangible asset is generated internally by the municipality, then a distinction should be made between research and development costs. Research costs should be expensed and development costs may be capitalised if all the criteria set out in GRAP 31 has been met.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all intangible assets are appropriately recorded in terms of the municipality's policies.
- It is the responsibility of the Head of Information Technology to ensure that all licensed computer software other than operating software are accounted.

8.7 Investment Property – GRAP 16

General

Investment Property comprise of land or buildings (or parts of buildings) or both, held by the municipality as owner, or as lessee under a finance lease, to earn rental revenues or for capital appreciation or both. Investment property does not include property used in the production or supply of service or for administration. It also does not include property that will be sold in the normal course of business. Typical investment properties include:

- Office parks (which have been developed by the municipality itself or jointly between the municipality and one or more other parties);
- Shopping centres (developed along similar lines);
- Housing developments (developments financed and managed by the municipality itself, with the sole purpose of selling or letting such houses for profit).
- Land held for a currently undetermined future use. For this class of Land and Buildings there is no intention of developing or selling the property in the normal course of business. This land and buildings include infrastructure reserves.

Policy

Investment Properties shall be accounted for in terms of GRAP 16 and shall not be classified as PPE for purposes of preparing the municipality's Statement of Financial Position. Investment Property shall initially be measured at its cost. Transaction costs shall be included in this initial measurement. Where an investment property is acquired at no cost, or for a nominal cost, its cost is its fair value as at the date of acquisition.

If the Council of the municipality resolves to construct or develop a property for future use as an investment property, such property shall in every respect be accounted for as PPE until it is ready for its intended use, where after it shall be reclassified as an investment asset.

After initial recognition, all investment property shall be measured at fair value. No depreciation will be calculated against the Investment Property. The fair value of investment property shall be determined annually at reporting date in terms of the municipality's Accounting Policy. The fair value should reflect market conditions and circumstances as at the reporting date.

Procedures and Rules

- The Asset Management Committee shall ensure that investment property assets are recorded in an Investment Property register.
- The Asset Management Committee shall ensure that an appropriately qualified valuator undertake such valuations on an annual basis.
- The Asset Management Committee shall ensure the recognition and measurement of *Investment Property* in terms of GRAP 16.

8.8 Agricultural Assets – GRAP 27

General

Biological Assets are living plants and animals such as trees in a plantation or orchard, cultivated plants, sheep and cattle. **Managed agricultural activity** such as raising livestock, forestry, annual or perennial cropping, fish farming that are in the process of growing, degenerating, regenerating and / or procreating which are expected to eventually result in agricultural produce. Such agricultural produce is recognised at the point of harvest. Future economic benefits must flow to the municipality from its ownership or control of the asset.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, and transfer taxes and duties. Point-of-sale costs exclude transport and other costs necessary to get assets to the market.

Where the municipality is unable to measure the fair value of biological assets reliably, a biological asset should be measured at cost less any accumulated depreciation and accumulated impairment losses.

Policy

Biological assets, such as livestock and crops, shall be valued annually at fair value less estimated point-of-sales costs.

Procedures and Rules

- The Asset Management Committee, in consultation with Strategic Executive Directors, shall ensure that all biological assets obtained from a managed agricultural activity, such as livestock and crops, are valued at 30 June each year by a recognised valuator in the line of the biological assets concerned.
- The Asset Management Committee shall ensure the recognition and measurement of *Biological Assets* in terms of GRAP 27.

9. Asset Acquisition

9.1 Acquisition of Assets

General

Acquisition of assets refers to the purchase of assets by buying, building (construction), or leasing.

Policy

Should the municipality decide to acquire an asset, the following fundamental principles should be carefully considered prior to acquisition of such an asset:

- The purpose for which the asset is required is in keeping with the objectives of the municipality and will provide significant, direct and tangible benefit to it;
- The asset fits the definition of an asset (as defined in GRAP 12, GRAP 16, GRAP 17, GRAP 27, GRAP 31 and GRAP 103)
- The asset has been budgeted for;
- The future annual operations and maintenance needs have been calculated and have been budgeted for in the operations budget;
- The purchase is absolutely necessary as there is no alternative municipal asset that could be economically upgraded or adapted;
- The asset is appropriate to the task or requirement and is cost-effective over the life of the asset.
- The asset is compatible with existing equipment and will not result in unwarranted additional expenditure on other assets or resources;
- Space and other necessary facilities to accommodate the asset are in place; and

Procedures and Rules

- The Asset Management Committee shall ensure that the Supply Chain Management Policy makes provision for these principles.
- The CFO shall ensure that all acquired assets are appropriately insured.

9.2 Creation of New Infrastructure Assets

General

Creation of new infrastructure assets refers to the purchase and / or construction of totally new assets that has not been in the control or ownership of the municipality in the past.

Policy

The cost of all new infrastructure facilities (not additions to or maintenance of existing infrastructure assets) shall be allocated to the separate assets making up such a facility and values may be used as a basis for splitting up construction costs of new infrastructure into its significant components, each of which have an appropriate useful life.

Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the construction of the asset is finalised and the asset is in the condition necessary for to operate in the manner intended by management.

Each part of an item of Infrastructure with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

Procedures and Rules

- Strategic Executive Directors shall ensure that relevant documents are submitted to Finance that includes the details of the work in progress relating to the relevant invoice and/or payment request.
- Strategic Executive Directors shall notify Finance when the works have been completed and the assets can be recognised.
- Strategic Executive Directors shall guide the service provider to submit invoices of work in progress as per the components and classification of assets as in the Asset Register.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.

9.3 Self-constructed Assets

General

Self-constructed assets relate to all assets constructed by the municipality itself or another party on instructions from the municipality.

Policy

All assets that can be classified as assets and that are constructed by the municipality should be recorded in the Asset Register and depreciated over its estimated useful life for that category of asset. Work in progress shall be flagged as such in the Asset Register until such time that the facility is completed. Depreciation will commence when the asset is in the condition necessary for it to operate in the manner intended by management.

Procedures and Rules

- Strategic Executive Directors shall ensure that proper records of staff time, transport and material costs are kept such that all costs associated with the construction of these assets are completely and accurately accounted for.
- Strategic Executive Directors shall open a job card for each infrastructure project constructed by the municipality.
- Strategic Executive Directors shall keep a timesheet system for internal staff to capture professional time spent on infrastructure projects. The time shall be priced at recognised professional fee scales and should be included in the capitalisation cost of the asset.
- On completion of the infrastructure project, the Strategic Executive Directors shall notify the Budget and Treasury Office of the asset being commissioned and will assist the Budget and Treasury Office in ensuring that all costs (both direct and indirect) associated with the construction of the assets are summed and capitalised to the assets that make up the project.

9.4 Donated Assets

General

A donated asset is an item that has been given to the municipality by a third party in government or outside government without paying or actual or implied exchange.

Policy

Donated assets should be valued at fair value, reflected in the Asset Register, and depreciated as normal assets.

Procedures and Rules

- All donated assets must be approved by the Asset Management Committee and ratified by Council prior to acceptance.
- The Asset Management Committee must evaluate the future operational costs of donated assets and the effect it might have on future tariffs and taxes, before a donated asset is accepted by the municipality.
- The conditions associated with the donation must be agreed upon and signed by the Municipal Manager.
- Municipal officers must inform the Asset Management Committee of any donations made to the Municipality.

10. Asset Maintenance

10.1 Useful Life of Assets

General

Useful Life of assets is defined in paragraph 2 of the Policy and is basically the period or number of production units for which an asset can be used economically by the municipality.

National Treasury (NT) published its Local Government Asset Management Guideline in August 2008 that includes directives for useful lives of assets, but municipalities must use their own judgement based on operational experience and in consultation with specialists where necessary in determining the useful lives for the particular classes of assets. Should the municipality decide on a useful life outside the given parameters, the National Treasury (OAG) should be approached and provided with a motivation, for its agreement of the rate utilised. The calculation of useful life is based on a particular level of planned maintenance.

Policy

The remaining useful life of assets shall be reviewed annually. Changes emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable remaining useful lives of the assets under their control. Changes in remaining useful lives must be approved by the Asset Management Committee.
- During annual physical verification the condition of each asset must be reviewed to determine the validity of its remaining useful life as reflected on the Assets Register. All items identified as being impaired (with remaining useful live shorter than anticipated as per the Assets Register) must be reported to the Chief Financial Officer who will implement steps to ensure that the impairments are incorporated in the Assets Register and reported on as required by the relevant standards of GRAP.
- The CFO shall ensure that remaining useful lives, and changes thereof, are properly recorded and accounted for in the Asset Register, general ledger and Financial Statements.
- The Asset Management Committee shall ensure that the *Remaining Useful Life* of an asset shall be reviewed at each reporting date.

10.2 Residual Value of Assets

General

The *Residual Value* of an asset is the estimated amount that the municipality would currently obtain from disposal of the asset, after deducting the estimated costs of

disposal, if the asset were already of the age and in the condition expected at the end of its useful life.

Policy

Residual values should be determined upon the initial recognition (capture) of assets. However, this will only be applicable to assets that are normally disposed of by selling them once the municipality does not have a need for such assets anymore, e.g. motor vehicles. In practice, the residual value of an asset is often insignificant and therefore immaterial in the calculation of the depreciable amount.

The residual value of assets shall be reviewed annually at reporting date. Changes in depreciation charges emanating from such reviews should be accounted for as a change in accounting estimates in terms of GRAP 3.

Procedures and Rules

- Strategic Executive Directors must determine the reasonable residual values of the assets under their control. Changes in residual values must be approved by the Asset Management Committee.
- The CFO shall ensure that residual values, and changes thereof, are properly recorded and accounted for in the Asset Register and the general ledger.
- The Asset Management Committee shall ensure that the *residual value* of an asset shall be reviewed at each reporting date.

10.3 Depreciation of Assets

General

Depreciation is the systematic allocation of the depreciable amount of an asset over its useful life. Depreciation therefore recognises the gradual exhaustion of the asset's service capacity. The depreciable amount is the cost of an asset, or other amount substituted for cost in the financial statements, less its residual value.

The depreciation method used **must** reflect the pattern in which economic benefits or service potential of an asset is consumed by the municipality. The following are the allowed alternative depreciation methods that can be applied by the municipality:

- Straight-line;
- Diminishing Balance; and
- Sum of the Units.

Policy

All assets, except land, investments properties and heritage assets, shall be depreciated over their reasonable useful lives. The *residual value* and the *useful life* of an asset shall be reviewed at each reporting date. The depreciation method applied must be reviewed at each reporting date. Reasonable budgetary provisions shall be made annually for the depreciation of all applicable assets controlled or used by the municipality, or expected to be so controlled or used during the ensuing financial year.

Depreciation shall take the form of an expense both calculated and debited on a monthly basis against the appropriate line item in the department or vote in which the asset is used or consumed. Depreciation of an asset should begin when the asset is ready to be used, i.e. the asset is in the location and condition necessary for it to be able to operate in the manner it is intended by management. Depreciation of an asset ceases when the asset is de-recognized. Therefore, depreciation does not cease when the asset becomes idle or is retired from active use and held for disposal unless the asset is fully depreciated. However, under certain methods of depreciation the depreciation charge can be zero while there is no production.

In the case of intangible assets being included as assets, the procedures to be followed in accounting and budgeting for the amortisation of intangible assets shall be identical to those applying to the depreciation of other assets.

Procedures and Rules

- Strategic Executive Directors must ensure that a budgetary provision is made for the depreciation of the assets under their control in the ensuing financial year.
- Strategic Executive Directors must determine the reasonable useful life of the asset classifications under their control. Deviations from the standards of useful life must be motivated in writing to the Asset Management Committee for approval.
- In the case of an asset which is not listed in the asset classification list, Strategic Executive Directors shall determine a useful operating life, in consultation with the CFO, and shall be guided in determining such useful life by the likely pattern in which the asset's economic benefits or service potential will be consumed. The Asset Management Committee must be informed of the additional asset classification and amend the Asset Management Policy accordingly.
- Alternative depreciation methods may be used in exceptional cases, if motivated by the Strategic Executive Director controlling the asset to the Asset Management Committee. The Strategic Executive Director must then provide the Asset Management Committee with sufficient statistical information to make estimates of depreciation expenses for each financial year.
- The CFO shall ensure that depreciation shall be up to date on a monthly basis and be reconciled between the Asset Register and the general ledger.
- The CFO shall ensure that the *residual value*, *useful life* and *depreciation method* of an asset shall be reviewed at each reporting date.

10.4 Impairment Losses – GRAP 21

General

Impairment is the loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation. For example:

- Significant decline in market value;
- Carrying amount of an asset far exceeds the recoverable amount or market value;
- There is evidence of obsolescence (or physical damage);
- The deterioration of economic performance of the asset concerned; and
- The loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (such as through inadequate maintenance).

The impairment amount is calculated as the difference between the *carrying value* and the *recoverable service value.* The recoverable service value is the higher of the asset's value in use or its net selling price. Where the recoverable service amount is less than the carrying amount, the carrying amount should be reduced to the recoverable service amount by way of an impairment loss. The impairment loss should be recognised as an expense when incurred unless the asset is carried at revalued amount.

If the asset is carried at a revalued amount (in the case of investment property, infrastructure and community assets) the impairment should be recorded as a decrease in the revaluation reserve. Where immovable property, plant and equipment surveys are conducted, the recoverable service value is determined using the depreciated replacement costs method by assessing the remaining useful life.

Policy

Assets shall be reviewed annually for impairment. Impairment of assets shall be recognised as an expense, unless if it reverses a previous revaluation in which case it should be charged to the *Revaluation Surplus.* The reversal of previous impairment losses recognised as an expense, is recognised as an income.

Procedures and Rules

- The Asset Management Committee must ensure that annual impairment surveys are performed.
- The CFO shall ensure that impairment losses, or reversals thereof, are properly recorded and accounted for in the Asset Register and the general ledger.

10.5 Maintenance of Assets and the Asset Register

General

Maintenance refers to all actions necessary for retaining an asset as near as practicable to its original condition in order for it to achieve its expected useful life, but excluding rehabilitation or renewal. This includes all types of maintenance – corrective and preventative maintenance.

For linear infrastructure assets, such as pipes and roads, the following test is applied to differentiate between maintenance and renewal when partial sections of linear assets are renewed:

- If a future renewal of the entire pipe will include the renewal of the partial section that is now renewed, then the renewal of the partial section is treated as maintenance.
- If a future renewal of the entire pipe will retain the partial section that is now renewed, then the renewal of the partial section is treated as renewal and the pipe is split into two separate assets.

The splitting of linear infrastructure has a data management implication, but it is the easiest method that maintains the data integrity over time.

Maintenance analysis is an essential function of infrastructure management to ensure cost-effective and sustainable service delivery. In order to analyse maintenance data, maintenance actions undertaken against individual infrastructure assets should be recorded against such assets.

Policy

Maintenance actions performed on infrastructure assets shall be recorded against the individual assets that are individually identified in the Asset Register.

The risk and criticality of all assets must be assessed in conjunction with the annual physical asset verification process. All assets with a condition rating greater than 3 (three) must be reported to the Asset Management Committee who will give instructions with regard to the criticality grading of the assets on the Asset Register. Strategic Executive Directors must ensure that the assets identified as critical are attended to in order to prevent possible failure.

Procedures and Rules

- Strategic Executive Directors responsible for the control and utilisation of infrastructure assets shall monitor maintenance actions and budget for the operation and maintenance needs of each asset or class of assets under their control. Operating expenses must include all labour and material costs for the repair and maintenance of the assets. This includes both contracted services and services performed by employees.
- Strategic Executive Directors shall ensure that the operating expenses are expended against the operating budget and not the capital budget.
- Strategic Executive Directors shall report to the Council annually of the extent to which the approved maintenance plan has been complied with and the extent of deferred maintenance.
- Strategic Executive Directors shall report to the Council annually on the likely effects that maintenance budgetary constraints may have on the useful operating life of the infrastructure asset classes;
- Strategic Executive Directors shall ensure that maintenance plans make provision for the additional maintenance burden of future infrastructure to be acquired.

10.6 Renewal of Assets

General

Asset Renewal is restoration of the service potential of the asset. Asset renewal is required to sustain service provision from infrastructure beyond the initial or original life of the asset. If the service provided by the asset is still required at the end of its useful life, the asset must be renewed. However if the service is no longer required, the asset should not be renewed. Asset renewal projections are generally based on forecast renewal by replacement, refurbishment, rehabilitation or reconstruction of assets to maintain desired service levels.

Policy

Assets renewal shall be accounted for against the specific asset. The renewal value shall be capitalised against the asset and the expected life of the asset adjusted to reflect the new asset life.

Procedures and Rules

- The Asset Management Committee must ensure that processes are in place to capture renewals data against specific assets and to capitalise it correctly.
- Strategic Executive Directors shall ensure that renewals expenditure are correctly budgeted for in the capital budget and expensed against this budget.
- Strategic Executive Directors must ensure that renewals expenditure data are correctly captured against the assets and the expected lives adjusted.

10.7 Replacement of Assets

General

This paragraph deals with the complete replacement of an asset that has reached the end of its useful life so as to provide a similar or agreed alternative level of service.

Policy

Assets that are replaced shall be written off at their carrying value. The replacement asset shall be accounted for as a separate new asset. All costs incurred to replace the asset shall be capitalised against the new asset. The SCMP will be applied.

Procedures and Rules

- The Asset Management Committee must ensure that processes are in place to capture replacement data against specific assets and to capitalise it correctly.

- Strategic Executive Directors shall ensure that replacement expenditure are correctly budgeted for in the capital budget and expensed against this budget.

11. Asset Disposal

11.1 Transfer of Assets

General

The processes and rules for the transfer of an asset to another municipality, municipal entity or national/provincial organ of state are governed by an MFMA regulation namely "the Local Government: Municipal Asset Transfer Regulations".

Transfer of assets or inventory items refers to the internal transfer of assets within the municipality or from the municipality to another entity. Procedures need to be in place to ensure that the Asset Control Department can keep track of all assets and ensure that the fixed Asset Register is updated with all changes in asset locations. These procedures must be followed and apply to all transfers of assets from:

- One Department to another Department;
- One location to another within the same department;
- One building to another; and
- One entity to another.

Policy

The transfer of assets is regulated by the SCMP and shall be controlled by the transfer processes in the policy and the Asset Register shall be updated accordingly.

Procedures and Rules

- Strategic Executive Directors must ensure that all asset transfer information is passed to Budget and Treasury Office.
- The CFO must ensure that a process is in place to capture and record asset transfer data.
- Staff of the Municipality, except for duly authorised staff, shall not move rented assets, such as photocopy machines.
- No person shall transfer any IT equipment without the knowledge and written consent of the Head: Information Technology.
- Strategic Executive Directors must immediately report to the Asset Management Committee any damages caused to an asset and will be held responsible to investigate the cause or nature of such damage.

11.2 Exchange of Assets

General

According to GRAP 17.29 an item of PPE may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets.

The cost of such an item of property, plant and equipment is measured at fair value unless:

(a) the exchange transaction lacks commercial substance; or

(b) the fair value of neither the asset received nor the asset given up is reliably measurable.

If the acquired item is not measured at fair value, its cost is measured at the carrying amount of the asset given up.

Policy

The SCMP will be applied when assets are exchanged. The cost of assets acquired in exchange for another asset shall be measured at the fair value of the asset received, which is equivalent to the fair value of the asset given up, adjusted by the amount of any cash or cash equivalents transferred.

Procedures and Rules

- An item of PPE may be acquired in exchange for a similar asset that has a similar use in the same line of operations and which has a similar fair value or may be sold in exchange for an equity interest in a similar asset. No gain or loss is recognised in both cases.
- The Asset Management Committee shall approve all asset exchanges in consultation with the relevant Strategic Executive Director.

11.3 Alienation / Disposal of Assets

General

Alienation / Disposal (alienation) is the process of disowning redundant and obsolete assets by transferring ownership or title to another owner, which is external to the municipality.

The MFMA (section 14 and 90) and the Municipal Supply Chain Management Regulation no. 27636 have specific requirements regarding the disposal of assets. Specifically:

- A municipality may not ..." permanently dispose of a asset needed to provide the minimum level of basic municipal services"
- Where a municipal council has decided that a specific asset is not needed to provide the minimum level of basic services, a transfer of ownership of an asset must be fair, equitable, transparent, competitive and consistent with the municipality's supply chain management policy.

Policy

There are various methods of disposal. Different disposal methods will be needed for different types of assets. When deciding on a particular disposal method and consideration of the following, the SCMP on disposal of assets must be applied:

- The nature of the asset
- The potential market value

- Other intrinsic value of the asset
- Its location
- Its volume
- Its trade-in price
- Its ability to support wider Government programmes;
- Environmental considerations
- Market conditions
- The asset's life

Appropriate means of disposal may include:

- Public auction
- Public tender
- Transfer to another institution
- Sale to another institution
- Letting to another institution
- Trade-in
- Controlled dumping (for items that have low value or are unhygienic)

Alienated assets shall be written-off in the Asset Register.

Procedures and Rules

- Strategic Executive Directors shall report in writing to the Asset Management Committee on 31 October and 30 April of each financial year on all assets which they wish to alienate and the proposed method of alienation.
- The CFO shall consolidate the requests received from the various departments, and shall promptly report the consolidated information to the Asset Management Committee, recommending the process of alienation to be adopted.
- The Council shall delegate to the Asset Management Committee the authority to approve the alienation of any asset.
- The Council shall ensure that the alienation of any asset takes place in compliance with Section 14 of the Municipal Finance Management Act, 2003. The Act states that the municipality may not alienate any asset required to provide a minimum level of service. The municipality may alienate any other asset, provided the municipality has considered the fair market value and the economic and community value to be received in exchange for the asset.
- Selling: Assets to be sold shall be sold in terms of paragraph 9.4 below.
- Donations: Donations may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee for approval.
- Destruction: Assets that are hazardous or need to be destroyed must be identified for tenders or quotations by professional disposal agencies.
- Scrapping: Scrapping of assets that cannot be alienated otherwise may be considered as a method of alienation, but such requests must be motivated to the Asset Management Committee.

- Once the assets are alienated, the CFO shall write-off the relevant assets in the Asset Register.
- The letting of immovable property must be done at market-related tariffs, unless the relevant treasury approves otherwise. No municipal property may be let free of charge without the prior approval of the relevant treasury.
- The Asset Management Committee must review, at least annually when finalising the budget, all fees, charges, rates, tariffs or scales of fees or other charges relating to the letting of municipal property to ensure sound financial planning and management.

11.4 Selling of Assets

General

Selling of assets refers to the public sale of municipal assets approved for alienation.

Policy

The selling of assets must be within the parameters laid down in the SCMP. Further must all assets earmarked for sale be sold by public auction or tender and the following steps shall be followed:

- A notice of the intention of the municipality to sell the asset shall be published in a local newspaper;
- In the case of a public auction, the municipality shall appoint an independent auctioneer to conduct the auction; and
- In the case of a tender, the prescribed tender procedures of the municipality shall be followed.

Sold assets shall be written-off in the Asset Register.

Procedures

- A request for assets to be sold must be submitted to the Asset Management Committee for approval. The request must be accompanied by a list of assets to be sold and the reasons for sale as described in paragraph 9.3 above.
- Assets earmarked for sale shall be reclassified as Assets Held-for-Sale.
- The Asset Management Committee may approve the engagement of auctioneers either on a quotation basis or by tender depending on the goods to be alienated.
- Bidding: Bidders are afforded the opportunity to make an offer on identifiable items. Bids are compared and the highest bidder is awarded the bid.
- Tenders: Tenders shall be invited according to the municipality's tender procedures.
- Once the assets are sold, the CFO shall write-off the relevant assets in the Asset Register.
- If the proceeds of the sales are less than the carrying value recorded in the Asset Register, such difference shall be recognised as a loss for the

department or vote concerned in the Statement of Financial Performance. If the proceeds of the sales, on the other hand, are more than the carrying value of the asset concerned, the difference shall be recognised as a gain for the department or vote concerned in the statement of financial performance.

- Transfer of assets to other municipalities, municipal entities (whether or not under the municipality's sole or partial control) or other organs of state shall take place in accordance with the above procedures, except that the process of alienation shall be by private treaty.

11.5 Writing-off of Assets

General

The write-off of assets is the process to permanently remove the assets from the Asset Register. Assets can be written-off after approval of the Asset Management Committee of a report indicating that:

- The useful life of the asset has expired;
- The asset has been destroyed;
- The asset is out dated;
- The asset has no further useful life;
- The asset does not exist anymore;
- The asset has been sold; and
- Acceptable reasons have been furnished leading to the circumstances set out above.
- The SCMP has been adhered to.

The CFO may approve the *ad hoc* writing-off of assets without prior approval of the Asset Management Committee on condition that –

- The write-offs fall after but between the next scheduled Asset Management Committee meeting and financial year end closure; and
- The Asset Management Committee is informed of the write-offs at the next scheduled Asset Management Committee meeting.

Policy

The only reasons for writing off assets, other than the sale of such assets during the process of alienation, shall be the loss, theft, destruction, material impairment, or decommissioning of the asset in question.

Procedures and Rules

- Strategic Executive Directors shall report to the CFO on 31 October and 30 April of each financial year on any assets which such Strategic Executive Director wishes to have written-off, stating in full the reason for such recommendation. The CFO shall consolidate all such reports, and shall promptly submit a recommendation to the Asset Management Committee on the assets to be written off.

- An asset, even though fully depreciated, shall be written-off only on the recommendation of the Strategic Executive Director controlling or using the asset concerned, and with the approval of the Asset Management Committee.
- In every instance where a not fully depreciated asset is written off with no proceeds for the asset being obtained, the CFO shall immediately debit to such department or vote the full carrying value of the asset concerned as impairment expenses.
- Assets that are replaced should be written-off and removed from the Asset Register.

12. Asset Physical Control

12.1 Physical Control / Verification

General

Movable assets require physical control and verification of existence.

Policy

All movable assets shall be actively controlled, including an annual verification process.

Procedures and Rules

- All movable assets, where practicable, must have a visible bar code or unique asset marking as determined by the Asset Management Committee.
- Annual verification of movable assets should be conducted under the direction of Finance. This procedure would enable the municipality to identify discrepancies and dispositions and properly investigate and record the transactions.
- Procedures should be established to adequately identify assets owned by others or subject to reclamation by donors.
- The Asset Management Committee shall co-ordinate and control regular physical checks, and all discrepancies are to be reported immediately to the Asset Management Committee.
- Registers must be kept for those assets allocated to staff members. The individuals are responsible and accountable for the assets under their control. These registers should be updated when the assets are moved to different locations or allocated to a different staff member in order to facilitate control and physical verification.
- Where a change in person in direct control of equipment takes place, a handing-over certificate shall be completed and signed by both parties concerned and a copy of this certificate must be forwarded to Finance. If surpluses or deficiencies are found, the certificates shall be dealt with as with stock-taking reports.
- If for any reason the person from whom the asset is being taken over is not available, the asset controller should assist the person taking over with the checking of the equipment and the certification of any discrepancies.
- In case of failure to comply with the requirements of a handing-over certificate, the person taking over shall be liable for any shortages, unless it can be established that the shortages existed prior to their taking over.
- Any losses of and damage to equipment, excluding discrepancies at stocktaking of losses resulting from normal handling or reasonable wear and tear, shall be reported to the Asset Management Committee.
- Independent checks from asset records shall be conducted to ensure that the assets physically exist, especially those that could be disposed of without a noticeable effect on operations.

- Yearly physical inspections of assets shall be performed to identify items which are damaged, not in use or are obsolete due to changed circumstances, to ensure that they are appropriately repaired, written off or disposed of.
- All newly acquired assets shall be delivered to / received by the procurement section where the assets will be bar-coded before dispatch to the persons who will be the custodians of the assets. Where this is not practicable, the acquired assets must be delivered to the section issuing the requisition and that section must notify the procurement section so that bar-coding or asset marking can be arranged.
- Delivery of assets by procurement staff must be to the person requiring the asset and he/she will sign a form accepting responsibility for the asset.
- The Asset Management Committee may, on request of a Strategic Executive Director, waive full physical verification and accept written confirmation from the Strategic Executive Director of infrastructure assets being verified during the course of a financial period as part of routine and/or planned maintenance and/or physical inspections. Documentation in this regard must be kept by departments and be available for inspection. The Chief Financial Officer will inform the external auditors of the Asset Management Committee's decision

12.2 Insurance of Assets

General

Insurance provides selected coverage for the accidental loss of the asset value. Generally, government infrastructure is not insured against disasters because relief is provided from the Disaster Fund through National Treasury.

Policy

Assets that are material in value and substance shall be insured at least against destruction, fire and theft. All municipal buildings shall be insured at least against fire and allied perils. Land shall not be included for the purpose of insurance.

Procedures and Rules

- The Asset Management Committee will ensure that all assets are properly insured in terms of the policy.

12.3 Safekeeping of Assets

General

Asset safekeeping is the protection of assets from damage, theft, and safety risks.

Policy

Directives for the safekeeping of assets shall be developed and the safekeeping of assets shall be actively undertaken. The municipality shall establish and implement the Loss Control Policy for such purpose.

Procedures and Rules

- The Asset Management Committee must issue directives that detail the safekeeping of assets.
- Strategic Executive Directors must ensure that safekeeping directives are adhered to.
- Malicious damage, theft, and break-ins must be reported to the CFO and loss control officer within 48 hours of its occurrence or awareness. The CFO will inform the Asset Management Committee of such occurrence.
- The Municipal Manager must report criminal activities to the South African Police Service.
- If any biological asset is lost, stolen or destroyed, the matter shall be reported in writing by the Strategic Executive Director concerned in exactly the same manner as though the asset were an ordinary asset.

13. Asset Financial Control

13.1 Funding Sources

General

The Municipal Finance Management Act (MFMA) provides guidelines on how to utilise funds in financing assets (Section 19 of MFMA). The municipality shall utilise any of the following sources to acquire and / or purchase assets:

- Grants;
- Donations;
- Internally Generated Funds;
- External Loans; and / or
- Leases.

ANNEXURES

ANNEXURE A
ABBREVIATIONS

AM	Asset Management
AMC	Assets Management Committee
AMS	Asset Management System
CFO	Chief Financial Officer
DM	District Municipality
EPWP	Expanded Public Work Program
GAMAP	Generally Accepted Municipal Accounting Practice
GIS	Geographical Information System
GRAP	Standards of Generally Recognised Accounting Practice
HR	Human Resource
IAM	Infrastructure Asset Management
IAMP	Infrastructure Asset Management Plan
AR	Asset Register
IAR	Infrastructure Asset Register
IAS	International Accounting Standards
IDP	Integrated Development Plan
MFMA	Municipal Finance Management Act
MTREF	Medium Term Revenue and Expenditure Framework
NT	National Treasury
OAG	Office of the Accountant General
LM	Local Municipality
O&M	Operation and Maintenance
SCMP	Supply Chain Management Policy

ANNEXURE B
ASSET HIERARCHY

CLASS	MINOR GROUP	EUL (YRS)	EUL (MONTHS)
LAND	LAND	0	0
	LANDFILL SITE	55	660
BUILDINGS		30	360
INFRASTRUCTURE	ROADS AND PAVING	80	960
	BRIDGES	80	960
	STORMWATER	50	600
	ELECTRICAL SUBSTATIONS	30	360
	FENCING	20	240
	LAYERING	20	240
	ELECTRICAL MAINS	20	240
	CONTAINERS	10	120
	POWER STATION	60	720
	RETICULATION	25	300
	ELECTRICITY TRANSFORMERS	30	360
	UNDERGROUND LINES	45	540
	ELECTRICITY PANELS	5	60
	STREET LIGHTING	25	300
	TELEMETERY	7	84
	OVERHEAD LINES	30	360
	CABLES	45	540
COMMUNITY	CLINIC AND HEALTH FACILITIES	30	360
	STADIUMS	80	960
	SECURITY SYSTEMS	5	60
	CEMETERY	30	360
	COMMUNITY HALLS	80	960
	LIBRARY	80	960
OTHER ASSETS	HONEY SUCKER TANKER	10	120
	BINS AND CONTAINERS	5	60
	EMERGENCY EQUIPMENT	5	60
	MOTOR VEHICLES	5	60
	FURNITURE AND FITTINGS	7	84
	PLANT AND EQUIPMENT	5	60
	COMPUTER EQUIPMENT	5	60